*(Expressed in Hong Kong dollars)*

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("SEHK"). A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are 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 already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (c) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of land and buildings as set out in note 1(f).

### (d) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)).

### (e) Other investments in securities

The Group's policies for investments in securities other than investments in subsidiaries are as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

*(Expressed in Hong Kong dollars)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Other investments in securities *(continued)*

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(f) Fixed assets

(i) Fixed assets are carried in the balance sheet on the following bases:

– land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation (see note 1(h)). Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and

– plant and machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)).

(ii) Changes arising on the revaluation of land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset, immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset, had previously been charged to the income statement.

(iii) 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 Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of land and buildings held for own use, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

*(Expressed in Hong Kong dollars)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

*(i) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

*(ii) Assets held for use in operating leases*

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(p)(iii).

*(iii) Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement 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.

(h) Amortisation and depreciation

(i) Depreciation is calculated on a straight-line basis to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 30 to 50 years |
| Plant and machinery | 5 years |
| Furniture, fixtures and office equipment | 5 years |
| Motor vehicles and yacht | 4 years |

(ii) Leasehold land and land use rights are amortised on a straight-line basis over the terms of the respective leases/grants.

*(Expressed in Hong Kong dollars)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets and other long-lived assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

*(i) Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

*(ii) Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Textile quota entitlements

Permanent textile quota entitlements are stated at cost less accumulated amortisation and impairment losses (see note 1(i)). Amortisation is provided on a straight-line basis over their estimated economic useful life of three years. Costs of temporary textile quota entitlements are charged to the income statement as incurred.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out method of costing and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

*(Expressed in Hong Kong dollars)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(m) Employee benefits

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

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and defined contribution retirement schemes organised by the People's Republic of China ("PRC") municipal government, are recognised as an expense in the income statement as incurred, except to the extent that they are included in as part of the cost of inventories at the balance sheet date.

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

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

(n) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

*(Expressed in Hong Kong dollars)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Income tax *(continued)*

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

*(Expressed in Hong Kong dollars)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Income tax *(continued)*

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

*(i) Sales of goods*

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes, if any, and is after deduction of any trade discounts.

*(Expressed in Hong Kong dollars)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Revenue recognition *(continued)*

*(ii) Rental income from operating leases*

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

*(iii) Interest income*

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

With respect to subsidiaries outside Hong Kong, whose operations are dependent on the economic circumstances of the Group's reporting currency, the income and expenses of such subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates whereas the monetary assets and liabilities of such subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

(r) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) Segment reporting

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 chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

*(Expressed in Hong Kong dollars)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Segment reporting *(continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

2 TURNOVER

The principal activities of the Group are the manufacturing and sale of garments.

Turnover represents the aggregate of the invoiced value of goods sold and is stated after deducting goods returned, trade discounts and sales tax.

3 OTHER REVENUE AND OTHER NET INCOME

| | **2005** | 2004 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **Other revenue** | | |
| Interest income | **8,715** | 622 |
| Others | **463** | 115 |
| | **9,178** | 737 |
| **Other net income** | | |
| Net exchange gain | **378** | 626 |

*(Expressed in Hong Kong dollars)*

## 4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

| | | 2005 | 2004 |
|---|---|---|---|
| | | ***$'000*** | *$'000* |
| (a) | Finance costs: | | |
| | Interest on bank and other borrowings repayable within five years | **19,589** | 10,600 |
| | Finance charges on obligations under finance leases | **867** | 892 |
| | Bank charges | **6,127** | 6,509 |
| | | **26,583** | 18,001 |
| (b) | Staff costs #: | | |
| | Salaries, wages and other benefits | **137,244** | 123,223 |
| | Contributions to defined contribution retirement schemes | **1,017** | 1,045 |
| | | **138,261** | 124,268 |
| (c) | Other items: | | |
| | Cost of inventories sold # | **1,165,019** | 665,598 |
| | Subcontracting charges # | **27,388** | 30,066 |
| | Depreciation # | | |
| | – owned assets | **32,407** | 26,245 |
| | – assets held under finance leases | **9,021** | 7,517 |
| | Amortisation of permanent textile quota entitlements | **–** | 1,296 |
| | Purchase cost of temporary textile quota entitlements | **8,215** | 11,234 |
| | Operating lease charges in respect of properties # | **3,312** | 2,829 |
| | Auditors' remuneration – audit services | **1,453** | 1,202 |
| | Provision for inventory obsolescence # | **4,799** | 6,992 |

\# *Cost of inventories sold includes $175,583,000 (2004: $157,808,000) relating to subcontracting charges, staff costs, depreciation expenses, operating lease charges and provision for inventory obsolescence, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.*

*(Expressed in Hong Kong dollars)*

## 5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

| | **2005** | 2004 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **Current tax – Provision for Hong Kong Profits Tax** | | |
| Tax for the year | **8,314** | 6,303 |
| Over-provision in respect of prior years | **(304)** | (2,232) |
| | **8,010** | 4,071 |
| **Current tax – Overseas** | | |
| Tax for the year | **3,469** | 603 |
| | **11,479** | 4,674 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences *(Note 26(b))* | **593** | 3,712 |
| | **12,072** | 8,386 |

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

The Group's subsidiary in the PRC, Luoding Hua Tian Long Garment Ltd. is subject to PRC income tax at 33%.

The Group's subsidiaries in Cambodia are subject to Cambodia income tax at a rate of 9%. Pursuant to the tax exemption certificate dated 8 July 2004 issued by the relevant tax authorities, Supertex Limited is exempted from Cambodia income tax for the period from 8 July 2004 to 7 July 2008. With the expiry of tax holidays, Cambodia Sportswear Mfg. Ltd. and Tack Fat Garment (Cambodia) Ltd. are subject to Cambodia income tax at 9% starting from 15 June 2003 and 15 June 2004 respectively.

*(Expressed in Hong Kong dollars)*

## 5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

| | 2005<br>$'000 | 2004<br>$'000 |
|---|---|---|
| Profit before tax | **166,791** | 129,435 |
| Notional tax on profit before tax, calculated at Hong Kong Profits Tax rate of 17.5% | **29,188** | 22,651 |
| Non-taxable offshore income | **(5,546)** | (2,008) |
| Tax rate differential of overseas subsidiaries | **(7,327)** | (5,649) |
| Effect of tax holidays of overseas subsidiaries | **(4,997)** | (5,481) |
| Non-deductible expenses | **1,058** | 1,105 |
| Over-provision in respect of prior years | **(304)** | (2,232) |
| Actual tax expense | **12,072** | 8,386 |

## 6 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | 2005<br>$'000 | 2004<br>$'000 |
|---|---|---|
| Fees | **150** | 120 |
| Salaries and other emoluments | **4,452** | 4,554 |
| Retirement scheme contributions | **48** | 49 |
| | **4,650** | 4,723 |

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

The remuneration of the directors is within the following bands:

| | Number of directors | |
|---|---|---|
| | 2005 | 2004 |
| $ | | |
| Nil – 1,000,000 | **6** | 5 |
| 1,000,001 – 2,500,000 | **–** | – |
| 2,500,001 – 3,000,000 | **1** | 1 |
| | **7** | 6 |

*(Expressed in Hong Kong dollars)*

## 7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2004: three) are directors whose emoluments are disclosed in note 6 above. The aggregate of the emoluments in respect of the remaining two (2004: two) individuals is as follows:

| | **2005** | 2004 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Salaries and other emoluments | **1,336** | 953 |
| Retirement scheme contributions | **18** | 24 |
| | **1,354** | 977 |

The emoluments of the two (2004: two) individuals with the highest emoluments are within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2005** | 2004 |
| $ | | |
| Nil – 1,000,000 | **2** | 2 |

## 8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of $18,513,000 (2004: $14,599,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

| | **2005** | 2004 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements | **18,513** | 14,599 |
| Final dividends from subsidiaries attributable to profits of the previous financial year, approved and paid during the year | **28,545** | 27,460 |
| Company's profit for the year *(note 28)* | **47,058** | 42,059 |

*(Expressed in Hong Kong dollars)*

## 9 DIVIDENDS

### (a) Dividends attributable to the year

| | 2005<br>$'000 | 2004<br>$'000 |
|---|---|---|
| Interim dividend declared and paid of 1.2 cents (2004: 0.9 cents) per share | **18,134** | 12,562 |
| Final dividend proposed after the balance sheet date of 2 cents (2004: 2 cents) per share | **30,333** | 28,416 |
| | **48,467** | 40,978 |

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

### (b) Dividends attributable to the previous financial year, approved and paid during the year

| | 2005<br>$'000 | 2004<br>$'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of 2 cents (2004: 2 cents) per share *(note)* | **28,545** | 27,461 |

*Note: The amount of final dividend paid during the year of $28,545,000 included an additional amount of $129,000 paid to holders of new shares issued on conversion of convertible bonds before the closing date of the shareholders' register.*

## 10 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $154,719,000 (2004: $121,049,000) and the weighted average of 1,452,846,000 (2004: 1,379,729,000) ordinary shares in issue during the year.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted profit attributable to shareholders of $155,831,000 (2004: $122,402,000) and the weighted average of 1,597,277,000 (2004: 1,470,460,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

*(Expressed in Hong Kong dollars)*

## 10 EARNINGS PER SHARE *(continued)*

### (c) Reconciliations

| | **2005** **$'000** | 2004 $'000 |
|---|---|---|
| Profit attributable to shareholders | **154,719** | 121,049 |
| Increase in earnings arising from savings in interest cost, net of tax (assuming the convertible bonds had been converted into shares in the Company at the date of issue) | **1,112** | 1,353 |
| Adjusted profit attributable to shareholders | **155,831** | 122,402 |

| | **2005** **Number of shares** **'000** | 2004 Number of shares '000 |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | **1,452,846** | 1,379,729 |
| Deemed issue of ordinary shares in relation to convertible bonds | **127,902** | 37,983 |
| Deemed issue of ordinary shares for no consideration in relation to share option scheme | **16,529** | 52,748 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | **1,597,277** | 1,470,460 |

## 11 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

### (a) Business segment

Throughout the year, the Group has been operating in one single business segment, i.e. the manufacturing and sale of garments.

### (b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers. Segment assets and capital expenditures are based on the geographical location of the assets.

*(Expressed in Hong Kong dollars)*

11 SEGMENT REPORTING *(continued)*

(b) Geographical segments *(continued)*

The Group's business is principally managed in Hong Kong and other parts of the PRC as well as in Cambodia while the principal markets for the Group's products are wholesalers and retailers in North America, Europe and other regions.

| | | 2005<br>*$'000* | 2004<br>*$'000* |
|---|---|---|---|
| *(i)* | *Segment revenue* | | |
| | North America | **1,189,687** | 656,970 |
| | Europe | **250,341** | 234,491 |
| | Other regions | **88,971** | 97,952 |
| | | **1,528,999** | 989,413 |
| *(ii)* | *Capital expenditures* | | |
| | Hong Kong | **2,301** | 1,592 |
| | PRC, excluding Hong Kong | **24,069** | 12,352 |
| | Cambodia | **49,436** | 75,484 |
| | | **75,806** | 89,428 |
| *(iii)* | *Segment assets* | | |
| | Hong Kong | **1,146,095** | 694,724 |
| | PRC, excluding Hong Kong | **122,558** | 94,144 |
| | Cambodia | **452,117** | 429,278 |
| | | **1,720,770** | 1,218,146 |

*(Expressed in Hong Kong dollars)*

## 12 FIXED ASSETS

(a)

| **The Group** | **Land and buildings** *$'000* | **Plant and machinery** *$'000* | **Furniture, fixtures and office equipment** *$'000* | **Motor vehicles and yacht** *$'000* | **Total** *$'000* |
|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | |
| At 1 April 2004 | 256,207 | 219,664 | 62,691 | 13,916 | 552,478 |
| Additions | 8,624 | 49,533 | 17,262 | 387 | 75,806 |
| Disposals | – | (18,246) | (3,748) | – | (21,994) |
| At 31 March 2005 | 264,831 | 250,951 | 76,205 | 14,303 | 606,290 |
| Representing: | | | | | |
| At cost | – | 250,951 | 76,205 | 14,303 | 341,459 |
| At valuation | 264,831 | – | – | – | 264,831 |
| | 264,831 | 250,951 | 76,205 | 14,303 | 606,290 |
| **Accumulated depreciation:** | | | | | |
| At 1 April 2004 | 15,303 | 153,589 | 42,360 | 12,495 | 223,747 |
| Charge for the year | 6,404 | 27,453 | 7,106 | 465 | 41,428 |
| Written back on disposals | – | (18,246) | (3,748) | – | (21,994) |
| At 31 March 2005 | 21,707 | 162,796 | 45,718 | 12,960 | 243,181 |
| **Net book value:** | | | | | |
| At 31 March 2005 | 243,124 | 88,155 | 30,487 | 1,343 | 363,109 |
| At 31 March 2004 | 240,904 | 66,075 | 20,331 | 1,421 | 328,731 |

*(Expressed in Hong Kong dollars)*

12 FIXED ASSETS *(continued)*

(b) An analysis of net book value of the properties is as follows:

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| In Hong Kong | | |
| – Medium-term leases # | **13,202** | 13,518 |
| In PRC, other than Hong Kong | | |
| – Medium-term leases # | **25,243** | 25,893 |
| In Cambodia | | |
| – Long-term leases # | **204,679** | 201,493 |
| | **243,124** | 240,904 |

\# *Medium-term leases represent leases with an unexpired period of less than 50 years but not less than 10 years. Long-term leases represent leases with an unexpired period of not less than 50 years.*

Pursuant to certain non-cancellable long lease agreements, the Company's subsidiaries in Cambodia leased two parcels of land from the Government of Cambodia for a period of 70 years beginning in April and September 1994 respectively, in consideration of pre-determined fixed annual rents totalling approximately $55,057,000 plus contingent rents at 0.3% of the annual net profits of the subsidiaries. Pursuant to the lease agreements, the subsidiaries' title to fixtures erected on the relevant land will be surrendered to the Government of Cambodia upon expiry of the respective leases. The Group's interests in such land have been recognised as leased assets and its corresponding lease obligations have been recognised as liabilities based on the accounting policy set out in Note 1(g).

In addition, pursuant to lease agreements dated 26 July 2000, the Company's subsidiaries in Cambodia leased another two parcels of land in Cambodia from Tack Fat Investment Co., Ltd, for a period of 70 years beginning in July 2000 with an option to renew, at an aggregate consideration of $58,964,000. Such consideration was determined based on the purchase price borne by the lessor which approximated the open market value.

In respect of the Group's properties in the PRC, other than Hong Kong, the Group has been granted the right to use the land by the relevant PRC authorities for a period of 50 years, which expires in April 2044.

(c) The Group's land and buildings at 31 January 2002 were revalued by American Appraisal Hongkong Limited, an independent firm of professional valuers in Hong Kong at their open market value. The resulting revaluation surpluses were recorded in the land and buildings revaluation reserve of the Group (note 28).

The carrying amount of the land and buildings held for own use of the Group at 31 March 2005 would have been approximately $228,367,000 (2004: $225,327,000) had they been carried at cost less accumulated depreciation.

*(Expressed in Hong Kong dollars)*

## 12 FIXED ASSETS *(continued)*

(d) The Group leases production plant and machinery, office equipment and lands under finance leases expiring from one to seventy years. In accordance with the relevant lease agreements for plant and machinery and office equipment, the Group has the option to purchase the leased assets at a price deemed to be a bargain purchase option at the end of the lease term.

For the year ended 31 March 2005, contingent rentals incurred by the Group in respect of the leases of land from the Government of Cambodia amounted to $264,000 (2004: $201,000). Except for these, none of the leases of the Group includes contingent rentals.

As at 31 March 2005, the net book value of fixed assets held under finance leases were as follows:

| | **The Group** | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| Land and buildings | **31,403** | 32,032 |
| Plant and machinery | **41,852** | 40,901 |
| Furniture, fixtures and office equipment | **–** | 47 |
| | **73,255** | 72,980 |

## 13 INVESTMENTS IN SUBSIDIARIES

| | **The Company** | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| Unlisted shares, at cost | **228,300** | 228,300 |

*(Expressed in Hong Kong dollars)*

13 INVESTMENTS IN SUBSIDIARIES *(continued)*

All of the following entities are subsidiaries as defined under note 1(d) and have been consolidated into the Group's financial statements:

| Name of company | Place of incorporation/ operation | Issued and fully paid share capital/ registered capital | Proportion of ownership interest held by the Company | Proportion of ownership interest held by a subsidiary | Principal activities |
|---|---|---|---|---|---|
| Ever Century Holdings Limited | British Virgin Islands/ Hong Kong | 700 ordinary shares of US$1 each | 100 | – | Investment holding |
| Tack Fat Swimwear Manufacturing Limited | Hong Kong | 1,000 non-voting deferred shares of $10,000 each<br><br>2 ordinary shares of $10,000 each | – | 100 | Manufacturing and sale of garments |
| Tack Fat Manufacturing Factory Limited | Hong Kong | 2 ordinary shares of $10 each | – | 100 | Trading of fabric and other materials |
| Chiu Wing Enterprise Company Limited | Hong Kong | 3,000 non-voting deferred shares of $1,000 each<br><br>2 ordinary shares of $1,000 each | – | 100 | Property holding |
| Luoding Hua Tian Long Garment Ltd. *(note (i))* | PRC | US$2,466,782 | – | 100 | Manufacturing of garments |
| Tack Fat Garment (Cambodia) Ltd. *(note (ii))* | Cambodia | US$3,000,000 | – | 100 | Manufacturing of garments |

*(Expressed in Hong Kong dollars)*

## 13 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of company | Place of incorporation/ operation | Issued and fully paid share capital/ registered capital | Proportion of ownership interest held by the Company | Proportion of ownership interest held by a subsidiary | Principal activities |
|---|---|---|---|---|---|
| Cambodia Sportswear Mfg. Ltd. *(note (ii))* | Cambodia | US$2,400,000 | – | 100 | Manufacturing of garments |
| Supertex Limited *(note (ii))* | Cambodia | US$250,000 | – | 100 | Manufacturing of garments |
| Tack Fat International Holdings Limited | Hong Kong | 10,000 non-voting deferred shares of $1 each<br><br>2 ordinary shares of $1 each | – | 100 | Investment holding |
| Lantern Services Limited | British Virgin Islands/ Hong Kong | 2 ordinary shares of US$1 each | – | 100 | Investment holding |
| Potter Industries Limited | British Virgin Islands/ Hong Kong | 2 ordinary shares of US$1 each | – | 100 | Trading of packing materials |
| Blue Cat Enterprises Limited | British Virgin Islands/ Hong Kong | 1 ordinary share of US$1 each | – | 100 | Manufacturing of "Blue Cat" apparel |
| Newest Global Limited | British Virgin Islands/ Hong Kong | 1 ordinary share of US$1 each | – | 100 | Investment holding |
| Sino Profit Limited | British Virgin Islands/ Hong Kong | 1 ordinary share of US$1 each | – | 100 | Sale of garments |
| Global Far East (Macao Commercial Offshore) Limited | Macau | – | – | 100 | Dormant |

*(Expressed in Hong Kong dollars)*

## 13 INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of company | Place of incorporation/ operation | Issued and fully paid share capital/ registered capital | Proportion of ownership interest held by the Company | Proportion of ownership interest held by a subsidiary | Principal activities |
|---|---|---|---|---|---|
| Zhongshan Sing Long Garment Limited *(note (i))* | PRC | US$544,395 | – | 100 | Manufacturing of garments |
| Menlo Dynamics Company Limited | British Virgin Islands/ Hong Kong | 2 ordinary shares of $1 each | – | 100 | Investment holding |

*Notes:*

(i) These entities are wholly foreign owned enterprises established in the PRC.

(ii) These entities are wholly foreign owned limited companies incorporated pursuant to the Law on Investment in the Kingdom of Cambodia and the Law Bearing Upon Commercial Regulation and the Commercial Register.

## 14 OTHER FINANCIAL ASSETS

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| Investment securities – unlisted equity shares, at cost # | **41,000** | 15,300 |
| Club debentures | **1,100** | 1,100 |
| | **42,100** | 16,400 |

\# *Included in the cost of investment is 6.94% equity interest in Sino Legend Limited ("Sino Legend") amounting to $26,000,000 at 31 March 2005 (2004: nil) (note 32(b)).*

## 15 INVENTORIES

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| Raw materials | **139,519** | 114,579 |
| Work in progress | **48,278** | 46,032 |
| Finished goods | **26,604** | 22,399 |
| | **214,401** | 183,010 |

None of the inventories is stated at net realisable value.

*(Expressed in Hong Kong dollars)*

## 16 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Trade receivables | **228,374** | 149,882 | **–** | – |
| Deposits with subcontractors for manufacturing of garments | **33,853** | 57,121 | **–** | – |
| Refundable acquisition deposit *(note a)* | **491,400** | 58,804 | **–** | – |
| Other prepayments and receivables *(note b)* | **60,939** | 29,956 | **–** | 4,962 |
| | **814,566** | 295,763 | **–** | 4,962 |

*Notes:*

(a) As at 31 March 2005, the Group placed a refundable deposit of $491,400,000 with Lung Investment LLC (the "Vendor"), an independent third party in connection with the proposed acquisition of an additional equity interest of 43.06% in Sino Legend (note 32(b)). In April 2005, the Group applied the deposit in full settlement of the consideration payable to the Vendor in consummation of the acquisition.

(b) The balance at 31 March 2005 included a prepayment of $30,000,000 for investment in unlisted equity shares in a joint stock company in the PRC (the "Investee"). The prepayment is to be applied for settlement of an equivalent amount of investment consideration payable by the Company upon the successful completion of a reorganisation of the Investee. The prepayment is refundable in cash in the event that such reorganisation is not complete within one year from the date of prepayment.

Credit terms granted by the Group to customers generally range from one to three months. Included in trade receivables are balances (stated after provisions for doubtful debts) with the following ageing analysis:

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| Within 3 months | **228,374** | 149,882 |

All the trade and other receivables are expected to be recovered within one year.

## 17 AMOUNTS DUE FROM/TO SUBSIDIARIES

An amount due from subsidiary of $428,233,000 (2004: $160,200,000) is unsecured, bears interest at 2% (2004: 4%) per annum and has no fixed terms of repayment. The remaining balance is unsecured, interest free and has no fixed terms of repayment.

The amount due to subsidiary at 31 March 2005 was unsecured, interest free and had no fixed terms of repayment.

*(Expressed in Hong Kong dollars)*

## 18 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Deposits with banks | **265,843** | 349,626 | **–** | – |
| Cash at bank and in hand | **19,008** | 14,529 | **83** | 82 |
| Cash and cash equivalents in the balance sheet | **284,851** | 364,155 | **83** | 82 |
| Bank overdrafts *(note 20)* | **(5,436)** | (544) | | |
| Cash and cash equivalents in the cash flow statement | **279,415** | 363,611 | | |

## 19 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Bills payable | **11,651** | 12,822 | **–** | – |
| Trade payables | **45,375** | 38,099 | **–** | – |
| Accrued expenses and other payables | **15,525** | 13,714 | **727** | 868 |
| | **72,551** | 64,635 | **727** | 868 |

The credit terms obtained by the Group generally range from 30 days to 180 days. Included in trade payables are balances with the following ageing analysis:

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| Due within 1 month or on demand | **21,511** | 10,037 |
| Due after 1 month but within 3 months | **16,453** | 16,855 |
| Due after 3 months but within 6 months | **7,411** | 11,181 |
| Due after 6 months but within 1 year | **–** | 26 |
| | **45,375** | 38,099 |

All of the above balances are expected to be settled within one year.

*(Expressed in Hong Kong dollars)*

## 20 BANK LOANS AND OVERDRAFTS

At 31 March 2005, the bank loans and overdrafts were repayable as follows:

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| Within 1 year or on demand | **369,710** | 141,067 |
| After 1 year but within 2 years | **132,000** | 125,500 |
| After 2 years but within 5 years | **136,000** | 244,500 |
| | **268,000** | 370,000 |
| | **637,710** | 511,067 |

The bank loans and overdrafts were secured as follows:

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| Secured bank borrowings: | | |
| Bank overdrafts *(note 18)* | **5,436** | 544 |
| Trust receipt loans | **158,933** | 118,473 |
| Export finance loans | **33,341** | 18,075 |
| Term loans | **440,000** | 373,975 |
| | **637,710** | 511,067 |

The banking facilities of the Group were secured by corporate guarantees issued by the Company.

Certain banking facilities included financial covenants and minimum shareholding requirements required to be complied by the Group and certain principal shareholders of the Company respectively.

## 21 CONVERTIBLE BONDS

| | | The Group and the Company | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Note* | ***$'000*** | *$'000* |
| Unlisted and unsecured redeemable convertible bonds issued under: | | | |
| – Subscription agreement dated 19 December 2002 | *(a)* | **–** | 20,280 |
| – Bond placement agreement dated 13 September 2004 | *(b)* | **234,000** | – |
| | | **234,000** | 20,280 |

*(Expressed in Hong Kong dollars)*

## 21 CONVERTIBLE BONDS *(continued)*

*Notes:*

(a) On 19 December 2002, the Company entered into a subscription agreement (the "Subscription Agreement") with an independent third party under which the Company agreed to issue unlisted and unsecured redeemable convertible bonds (the "Bonds") up to an amount of US$12,000,000 (approximately $93,600,000). The Bonds bear interest at 2.5% per annum payable semi-annually in arrears. The Bonds are required to be redeemed on 19 December 2005 unless previously redeemed, converted or purchased and cancelled. A bondholder may convert the Bonds into new shares of $0.1 each in the Company at such conversion prices to be determined in accordance with the terms of the Subscription Agreement during the conversion period, which ends one week immediately prior to 19 December 2005. If the share price of the Company falls below certain predetermined amounts, the Company may redeem the Bonds at a price equivalent to the aggregate of 100% of the principal amount of the Bonds to be redeemed and interest at 9% per annum.

Pursuant to the Subscription Agreement, the Company issued the Original Tranche 1 Bonds of US$4,000,000 (approximately $31,200,000) and Additional Tranche 1 Bonds of US$4,000,000 (approximately $31,200,000) in December 2002 and October 2003 respectively.

As at 31 March 2004, an aggregate amount of US$3,900,000 (approximately $30,420,000) and US$1,500,000 (approximately $11,700,000) respectively out of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds were already converted into ordinary shares of the Company. During the year, the remaining amount of US$100,000 (approximately $780,000) and US$2,500,000 (approximately $19,446,000) respectively out of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds were converted into 1,224,000 ordinary shares and 33,120,000 ordinary shares respectively of the Company (note 27).

The holders of the Original Tranche 1 Bonds and Additional Tranche 1 Bonds were also granted the rights to subscribe for a total of $23,488,000 new shares of the Company at a fixed price of $0.531 per share. As at 31 March 2004, 11,744,000 new shares of the Company were already issued upon exercise of part of the share subscription rights by the bondholders. During the year, 11,744,000 new shares of the Company were issued upon exercise of the remaining share subscription rights by the bondholders (note 27).

(b) Pursuant to a bond placement agreement dated 13 September 2004, the Company issued US$30,000,000 (approximately $234,000,000) new convertible bonds bearing interest at 1% per annum payable in quarters to independent investors on 11 October 2004. The new convertible bonds will mature on 12 October 2009. The bonds are convertible into the Company's shares at the conversion price of $1.00 after three months from 11 October 2004 provided that up to a maximum of 50% of the bonds may be converted within the first 12 months from the date of bond issue. Each bondholder has a put option such that the Company shall redeem the bonds upon exercise of the option by the relevant bondholder under the following circumstances: (i) on the third and fifth anniversaries from the date of bond issue; or (ii) if the Company's shares are de-listed or suspended from trading on the SEHK for more that 14 consecutive trading days; or (iii) if there is a change in control of the Company. None of the new convertible bonds has been converted into ordinary shares up to the date of approval of these financial statements.

*(Expressed in Hong Kong dollars)*

## 22 OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2005, the Group had obligations under finance leases repayable as follows:

| | The Group | | |
|---|---|---|---|
| | **Present value of minimum lease payments** *$'000* | **interest expense relating to future periods** *$'000* | **Total minimum lease payments** *$'000* |
| **As at 31 March 2005** | | | |
| Within 1 year | 17,701 | 914 | 18,615 |
| After 1 year but within 2 years | 5,538 | 442 | 5,980 |
| After 2 years but within 5 years | 833 | 1,054 | 1,887 |
| After 5 years | 34,524 | 11,409 | 45,933 |
| | 40,895 | 12,905 | 53,800 |
| | 58,596 | 13,819 | 72,415 |
| **As at 31 March 2004** | | | |
| Within 1 year | 17,193 | 696 | 17,889 |
| After 1 year but within 2 years | 8,557 | 413 | 8,970 |
| After 2 years but within 5 years | 795 | 1,062 | 1,857 |
| After 5 years | 34,821 | 11,758 | 46,579 |
| | 44,173 | 13,233 | 57,406 |
| | 61,366 | 13,929 | 75,295 |

As at 31 March 2005, certain finance lease obligations were secured by corporate guarantees issued by the Company.

*(Expressed in Hong Kong dollars)*

## 23 PROVISION FOR LONG SERVICE PAYMENTS

| | The Group |
|---|---|
| | *$'000* |
| At 31 March 2004 and 2005 | 1,800 |

According to Part VB of the Employment Ordinance ("the Ordinance"), the Company is liable to make long service payments to the employees who have completed the required number of years of service on termination of their employment and where the termination of employment meets the required circumstances as specified in the Ordinance.

At 31 March 2005, a provision of $1,800,000 (2004: $1,800,000) has been made by the Group based on the best estimate of the long service payments that are required to be made to employees in respect of their service to date, less any amounts that would be expected to be met out of the Group's mandatory provident fund contributions.

## 24 EMPLOYEE RETIREMENT BENEFITS

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

In addition, the Group's subsidiaries in the PRC participate in defined contribution retirement schemes organised by the PRC municipal government. These subsidiaries are required to make contributions at 18% of the relevant PRC employees' salaries to the schemes.

The Group is not required to operate a retirement scheme for its employees' in Cambodia.

Save as disclosed above, the Group has no other obligations to make payments in respect of retirement benefits of the employees.

## 25 EQUITY COMPENSATION BENEFITS

The Company conditionally adopted a share option scheme approved by way of written resolution on 11 April 2002 under which the directors of the Company may invite any full-time employees, directors (including executive directors, non-executive directors and independent non-executive directors) and part-time employees of the Group with weekly working hours of 10 hours and above, any advisers (professional or otherwise) or consultants, distributors, suppliers, agents, customers, partners, joint venture partners, promoters, service providers to the Group from time to time to take up options to subscribe for shares of the Company.

The exercise price is determined by the board of directors at its absolute discretion and notified to each option holder but shall be no less than the highest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the SEHK on the date of grant, (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the SEHK for the five business days immediately preceding the date of grant, and (iii) the nominal value of a share on the date of grant. The options may be exercised in accordance with the terms of the share option scheme at any time during a period to be notified by the board of directors to each option holder but may not be exercised after the expiry of ten years from the date of grant. The board of directors may provide restrictions on the exercise of an option during the period an option may be exercised. Each option gives the holder the right to subscribe for one share.

*(Expressed in Hong Kong dollars)*

## 25 EQUITY COMPENSATION BENEFITS *(continued)*

On 7 November 2002, the Company granted 132,800,000 options at a nominal consideration under the share option scheme to certain employees of the Group to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one share of the Company at a subscription price of $0.465 with exercisable period from 7 November 2002 to 6 November 2004. On 6 November 2004, 60,000,000 share options were exercised at $0.465 per share (note 27) and the remaining 72,800,000 share options lapsed upon expiry of the exercisable period.

On 8 November 2004, the Company re-granted 68,000,000 options at a nominal consideration under the share option scheme of the Company to certain employees of the Group to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one share of the Company at $0.74 (which is equal to the closing price of the shares on the date of grant) with exercisable period from 8 November 2004 to 7 November 2007. Up to the date of approval of these financial statements, none of the share options granted to the employees of the Group on 8 November 2004 have been exercised.

(a) Movements in share options

| | **The Company** | |
|---|---|---|
| | **2005** | 2004 |
| | ***Number*** | *Number* |
| At 1 April | **132,800,000** | 132,800,000 |
| Exercised | **(60,000,000)** | – |
| Lapsed on expiry of exercisable period | **(72,800,000)** | – |
| Issued | **68,000,000** | – |
| At 31 March | **68,000,000** | 132,800,000 |
| Options vested at 31 March | **68,000,000** | 132,800,000 |

(b) Terms of unexpired and unexercised share options at balance sheet date

| **Date granted** | **Exercise period** | **Exercise price** | **2005** ***Number*** | 2004 *Number* |
|---|---|---|---|---|
| 7 November 2002 | 7 November 2002 to 6 November 2004 | $0.465 | **–** | 132,800,000 |
| 8 November 2004 | 8 November 2004 to 7 November 2007 | $0.74 | **68,000,000** | – |
| | | | **68,000,000** | 132,800,000 |

(c) Details of share options granted during the year, all of which were granted for a nominal consideration

| **Exercise period** | **Exercise price** | **2005** ***Number*** | 2004 *Number* |
|---|---|---|---|
| 8 November 2004 to 7 November 2007 | $0.74 | **68,000,000** | – |

*(Expressed in Hong Kong dollars)*

### 25 EQUITY COMPENSATION BENEFITS *(continued)*

(d) Details of share options exercised during the year

| Exercise date | Exercise price | Market value per share at exercise date | Proceeds received *$'000* | Number |
|---|---|---|---|---|
| 16 November 2004 | $0.465 | $0.80 | 27,900 | 60,000,000 |

### 26 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| Provision for Hong Kong Profits Tax for the year | **8,314** | 6,303 |
| Provisional Profits Tax paid | **(4,407)** | (3,168) |
| | **3,907** | 3,135 |
| Taxation outside Hong Kong | **441** | 28 |
| | **4,348** | 3,163 |

None of the tax payable is expected to be settled after more than one year.

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

| The Group | Depreciation allowances in excess of related depreciation *$'000* | Revaluation of properties *$'000* | Total *$'000* |
|---|---|---|---|
| **Deferred tax arising from:** | | | |
| At 1 April 2003 | 3,285 | 3,499 | 6,784 |
| Charged to consolidated income statement *(note 5(a))* | 3,712 | – | 3,712 |
| At 31 March 2004 | 6,997 | 3,499 | 10,496 |
| At 1 April 2004 | 6,997 | 3,499 | 10,496 |
| Charged to consolidated income statement *(note 5(a))* | 593 | – | 593 |
| At 31 March 2005 | 7,590 | 3,499 | 11,089 |

*(Expressed in Hong Kong dollars)*

## 26 INCOME TAX IN THE BALANCE SHEET *(continued)*

(b) Deferred tax assets and liabilities recognised: *(continued)*

| The Group | 2005 $'000 | 2004 $'000 |
|---|---|---|
| Net deferred tax asset recognised on the balance sheet | **(1,743)** | (2,342) |
| Net deferred tax liability recognised on the balance sheet | **12,832** | 12,838 |
| | **11,089** | 10,496 |

## 27 SHARE CAPITAL

| | Note | 2005 Number of shares | 2005 Amount $'000 | 2004 Number of shares | 2004 Amount $'000 |
|---|---|---|---|---|---|
| **Authorised:** | | | | | |
| Ordinary shares of $0.1 each | | **2,000,000,000** | **200,000** | 2,000,000,000 | 200,000 |
| **Issued and fully paid:** | | | | | |
| At 1 April | | **1,410,576,000** | **141,058** | 1,335,568,000 | 133,557 |
| Shares issued under share option scheme | *(a)* | **60,000,000** | **6,000** | – | – |
| Conversion of convertible bonds | *(b)* | **34,344,000** | **3,434** | 63,264,000 | 6,327 |
| Exercise of share subscription rights | *(c)* | **11,744,000** | **1,174** | 11,744,000 | 1,174 |
| At 31 March | | **1,516,664,000** | **151,666** | 1,410,576,000 | 141,058 |

(a) During the year, share options were exercised to subscribe for 60,000,000 (2004: nil) ordinary shares in the Company. The net consideration was $27,900,000 (2004: $nil) of which $6,000,000 (2004: $nil) was credited to share capital and the balance of $21,900,000 (2004: $nil) was credited to the share premium account (note 28).

(b) During the year, convertible bonds under the Original Tranche 1 Bonds and Additional Tranche 1 Bonds totalling US$2,600,000 (approximately $20,280,000) (2004: US$4,900,000 (approximately $38,220,000)) were converted into 34,344,000 ordinary shares (2004: 63,264,000 ordinary shares) of $0.1 each (note 21).

(c) During the year, 11,744,000 (2004: 11,744,000) ordinary shares of par value of $0.1 each were issued at $0.531 per share upon exercise of the share subscription rights granted to the holders of the convertible bonds.

*(Expressed in Hong Kong dollars)*

## 28 RESERVES

### (a) The Group

| | Share premium | Land and buildings revaluation reserve *(note (i))* | Contributed surplus *(note (ii))* | PRC statutory reserve *(note (iii))* | Retained earnings | Total |
|---|---|---|---|---|---|---|
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| At 1 April 2003 | 1,647 | 13,350 | 6,400 | 519 | 263,233 | 285,149 |
| Dividend approved in respect of previous year *(note 9)* | – | – | – | – | (27,461) | (27,461) |
| Share premium on conversion of convertible bonds *(note 21)* | 31,813 | – | – | – | – | 31,813 |
| Share premium on exercise of share subscription rights | 5,062 | – | – | – | – | 5,062 |
| Shares issue costs | (1,111) | – | – | – | – | (1,111) |
| Transfer on disposal of a subsidiary | – | – | – | (500) | 500 | – |
| Profit for the year | – | – | – | – | 121,049 | 121,049 |
| Dividend declared in respect of the current year *(note 9)* | – | – | – | – | (12,562) | (12,562) |
| At 31 March 2004 | 37,411 | 13,350 | 6,400 | 19 | 344,759 | 401,939 |
| At 1 April 2004 | 37,411 | 13,350 | 6,400 | 19 | 344,759 | 401,939 |
| Dividend approved in respect of previous year *(note 9)* | – | – | – | – | (28,545) | (28,545) |
| Share premium on conversion of convertible bonds *(note 21)* | 16,792 | – | – | – | – | 16,792 |
| Share premium on exercise of share subscription rights | 5,062 | – | – | – | – | 5,062 |
| Share premium on exercise of share options | 21,900 | – | – | – | – | 21,900 |
| Bonds issue costs | (6,466) | – | – | – | – | (6,466) |
| Profit for the year | – | – | – | – | 154,719 | 154,719 |
| Profit appropriation to reserve funds | – | – | – | 21 | (21) | – |
| Dividend declared in respect of the current year *(note 9)* | – | – | – | – | (18,134) | (18,134) |
| At 31 March 2005 | 74,699 | 13,350 | 6,400 | 40 | 452,778 | 547,267 |

*(Expressed in Hong Kong dollars)*

## 28 RESERVES *(continued)*

### (a) The Group *(continued)*

*Notes:*

(i) The land and buildings revaluation reserve has been set up and dealt with in accordance with the accounting policy adopted for the revaluation of land and buildings held for own use (note 1(f)).

(ii) The excess of the nominal value of shares of the subsidiaries acquired pursuant to the reorganisation in April 2002 over the nominal value of the shares of the Company issued in exchange is credited to the contributed surplus.

(iii) In accordance with the relevant PRC laws applicable to enterprises with foreign investment, the Company's subsidiaries in the PRC are required to transfer at least 10% of their annual net profit determined under relevant PRC accounting regulations to the general reserve until the balance of the reserve is equal to 50% of the entities' registered capital. This reserve can be used to convert into paid-in capital and offset to reduce prior years' losses, if any.

### (b) The Company

| | **Share premium** *(note (i))* *$'000* | **Contributed surplus** *(note (ii))* *$'000* | **Retained earnings** *$'000* | **Total** *$'000* |
|---|---|---|---|---|
| At 1 April 2003 | 1,647 | 193,780 | 1,329 | 196,756 |
| Dividend approved in respect of the previous year *(note 9)* | – | – | (27,461) | (27,461) |
| Share premium on conversion of convertible bonds *(note 21)* | 31,813 | – | – | 31,813 |
| Share premium on exercise of share subscription rights | 5,062 | – | – | 5,062 |
| Shares issue costs | (1,111) | – | – | (1,111) |
| Profit for the year | – | – | 42,059 | 42,059 |
| Dividends declared in respect of the current year *(note 9)* | – | – | (12,562) | (12,562) |
| At 31 March 2004 | 37,411 | 193,780 | 3,365 | 234,556 |
| At 1 April 2004 | 37,411 | 193,780 | 3,365 | 234,556 |
| Dividend approved in respect of the previous year *(note 9)* | – | – | (28,545) | (28,545) |
| Share premium on conversion of convertible bonds *(note 21)* | 16,792 | – | – | 16,792 |
| Share premium on exercise of share subscription rights | 5,062 | – | – | 5,062 |
| Share premium on exercise of share options | 21,900 | – | – | 21,900 |
| Bonds issue costs | (6,466) | – | – | (6,466) |
| Profit for the year | – | – | 47,058 | 47,058 |
| Dividends declared in respect of the current year *(note 9)* | – | – | (18,134) | (18,134) |
| At 31 March 2005 | 74,699 | 193,780 | 3,744 | 272,223 |

*(Expressed in Hong Kong dollars)*

## 28 RESERVES *(continued)*

### (b) The Company *(continued)*

*Notes:*

(i) In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

(ii) The contributed surplus represents the difference between the combined net asset value of the subsidiaries acquired pursuant to the reorganisation in April 2002 over the nominal value of the shares of the Company issued in exchange therefor. The application of contributed surplus is the same as the share premium.

(iii) At 31 March 2005, the aggregate amount of reserves available for distribution to shareholders of the Company was $272,223,000 (2004: $234,556,000). After the balance sheet date, the directors proposed a final dividend of 2 cents per share (2004: 2 cents per share), amounting to $30,333,000 (2004: $28,416,000). This dividend has not been recognised as a liability at the balance sheet date.

## 29 COMMITMENTS

(a) Capital commitments outstanding at 31 March 2005 not provided for in the financial statements were as follows:

| | **The Group** | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| Contracted for | **7,085** | 841 |
| Authorised but not contracted for | **–** | 3,590 |
| | **7,085** | 4,431 |

(b) At 31 March 2005, the total future minimum lease payments under non-cancellable operating leases relating to properties are repayable as follows:

| | **The Group** | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| Within 1 year | **2,738** | 2,225 |
| After 1 year but within 5 years | **105** | – |
| | **2,843** | 2,225 |

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

*(Expressed in Hong Kong dollars)*

## 30 CONTINGENT LIABILITIES

(a) At 31 March 2005, the Group had contingent liabilities in respect of the following:

| | **2005** | 2004 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Bills discounted with recourse | **28,375** | 15,049 |

(b) A writ of summons dated 29 February 2000 was filed by a supplier against Tack Fat Swimwear Manufacturing Limited, a wholly-owned subsidiary of the Company, claiming a sum of US$202,850 (equivalent to $1,582,000) for an alleged breach of the payment terms under certain purchase contracts. Based on the advice obtained from the legal advisers acting for the subsidiary, the directors of the Company are of the view that the subsidiary has a valid defence and counterclaim against the supplier. Consequently, no provision for such litigation or the associated legal costs has been included in the financial statements.

(c) As at 31 March 2005, the Company issued letters of guarantee in respect of bank facilities totalling $1,174,405,000 (2004: $852,068,000) granted to certain wholly-owned subsidiaries of the Company.

## 31 RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties which in the opinion of the directors of the Company, were carried out on normal commercial terms and in the ordinary course of the business of the Group.

| | | **2005** | 2004 |
|---|---|---|---|
| | *Note* | ***$'000*** | *$'000* |
| Warehouse rentals | *(i)* | **372** | 372 |
| Directors' quarters rentals paid to | *(ii)* | | |
| – Jumbo Team | | **816** | 816 |
| – Granco | | **816** | 816 |
| Guangzhou office rentals | *(iii)* | **490** | 490 |
| Sales of "Blue Cat" apparel | *(iv)* | **21,358** | 25,907 |

*(Expressed in Hong Kong dollars)*

## 31 RELATED PARTY TRANSACTIONS *(continued)*

*Notes:*

(i) The Group entered into lease arrangements with Mr Kwok Wing, a director of the Company, and his mother for leasing of a warehouse. The lease currently in force will expire on 22 October 2005 and the monthly rental payable by the Group under such lease is $31,000, which was determined by reference to open market value.

(ii) The Group had a lease arrangement with Jumbo Team Development Limited ("Jumbo Team") and Granco Enterprises Limited ("Granco") for the provision of directors' quarters to the Group. Both Granco and Jumbo Team are jointly owned by Mr Kwok Wing and his brother. On 8 March 2005, the leases with Granco and Jumbo Team were renewed for a period of one year beginning on 1 April 2005. The monthly rental payable by the Group under each of the new leases is $68,000, which was determined by reference to open market value.

(iii) The Group had a lease arrangement with Guangzhou Tack Fat Construction Co., Ltd., a company which is controlled by Mr Kwok Wing and his brother for leasing of an office property in Guangzhou, the PRC. The lease currently in force expires on 26 October 2005 and the monthly rental payable by the Group under such lease is approximately RMB43,000, which was determined by reference to open market value.

(iv) Pursuant to an exclusive manufacturing agreement dated 25 March 2002 entered into between the Group and Blue Cat Development Limited ("Blue Cat Development") for manufacturing clothing and apparel accessories in relation to the Blue Cat cartoon characters, the Group sold "Blue Cat" apparel to Blue Cat Development totalling $21,358,000 during the year (2004: $25,907,000). The terms of sales were similar to that provided by the Group to independent customers. Mr Kwok Wing has a 51% equity interest in Blue Cat Development.

## 32 POST BALANCE SHEET EVENTS

(a) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 9.

(b) Pursuant to the sale and purchase agreement dated 26 July 2004 which was approved by the Company's shareholders in an extraordinary meeting held on 4 April 2005, the Group acquired an additional equity interest of 43.06% in Sino Legend at a cash consideration of US$53,000,000 (approximately $413,400,000).

Sino Legend holds a 72% equity interest in Mudd (USA) LLC ("Mudd") which is principally engaged in the business of designing, manufacturing and selling of girls and young women's jeans and other clothing products and licensing of its trademark to manufacturers and distributors in North America.

Consequently, the Group's equity interest in Sino Legend and Mudd have increased to 50% and 36% respectively and both companies have become associates of the Group with effect from 4 April 2005. In addition, the Group has also bought an option to acquire a further 20.8% equity interest in Sino Legend at a cash consideration of US$15,650,000 (approximately $122,070,000) for a premium of US$10,000,000 (approximately $78,000,000). The option is exercisable during the period from 1 April 2007 to 30 September 2007.