# NOTES TO THE FINANCIAL STATEMENTS

*At 31 March 2006*

## 1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 directors of the Company consider that the ultimate holding Company is Huge Gain Development Limited, which is incorporated in the British Virgin Islands.

The principal place of business in Hong Kong is located at No. 1, 1st Floor, Pei Ho Building, 115-117 Fuk Wa Street, Sham Shui Po, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are engaged in the provision of apparel sourcing services, sales support services and apparel trading.

## 2. BASIS OF PREPARATION

The consolidated financial statements of Grandtop International Holdings Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Int") 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 and applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the financial statements is historical cost convention and modified the revaluation of available-for-sale financial assets, which are carried at fair value.

In preparing the financial statements, the directors of the Company (the "Directors") have given consideration to the future liquidity of the Group in light of the following:

(i) As at 31 March 2006, the Group has net current liabilities of approximately HK$11,448,000. The Group also incurred a net loss from ordinary activities attributable to the equity holders amounted to approximately HK$79,610,000 for the year ended 31 March 2006; and

(ii) Tax liabilities in relation to the estimated assessments issued by the Hong Kong Inland Revenue Department of approximately HK$19,918,000 in respect of non-taxable claim of non-Hong Kong sourced income for the years of assessments of 1998/1999 to 2003/2004. Detail of which has been set out in note 27 to the financial statements.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the outcome of the Tax Obligations on the Group and the financial support of the controlling shareholder, at a level sufficient to finance the working capital requirement of the Group. The controlling shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. If the going concern basis is not used, adjustments would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

### *The Adoption of new/revised HKFRSs*

From the beginning of the financial year ended 31 March 2006, the Group adopted the new/revised standards and interpretations of HKFRSs below, which are relevant to its operations. The comparatives figures for the financial year ended 31 March 2005 have been restated as required, in accordance with the relevant requirements. A summary of the new and revised HKFRSs is set out as below:–

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 2. BASIS OF PREPARATION *(Continued)*

| | |
|---|---|
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings Per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 (Amendment) | Transitional and Initial Recognition of Financial Assets and Financial Liabilities |
| HKAS-Int 4 | Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Leases |
| HKAS-Int 15 | Operating Leases – Incentives |
| HKFRS 2 | Share-based Payments |
| HKFRS 3 | Business Combinations |

The adoption of new and revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 37, HKAS-Int 4 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year.

– HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 33, 37, HKAS-Int 4 and 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. A lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in land element and the building element of the lease at the inception of the lease. The lease of land is stated at cost and amortised over the period of the lease whereas the building is stated at cost less accumulated depreciation. In prior years, leasehold land was classified under property, plant and equipment at cost less impairment.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

## 2. BASIS OF PREPARATION *(Continued)*

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1 April 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in share-based payment reserve. The share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill prospective application is required. Until 31 March 2005, positive goodwill was capitalised and amortised on a straight-line basis over its useful economic life of 15 years and was subject to impairment testing when there were indications of impairment.

In accordance with the provisions of HKFRS 3:

– the Group ceased amortisation of goodwill from 1 April 2005;

– accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill;

– from the year ended 31 March 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment;

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2005 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 April 2005.

– HKFRS 3 – prospectively after 1 April 2005.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 2. BASIS OF PREPARATION *(Continued)*

The effect on the adoption of the new accounting policies in consolidated balance sheet and consolidated income statement were summarised as follow:–

**Consolidated balance sheet**

*As at 31 March 2006*

| | HKAS 17 | HKFRS 3, HKAS 36 and 38 | HKAS 39 | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Decrease in property, plant and equipment | (5,757) | – | – | (5,757) |
| Increase in leasehold land | 5,757 | – | – | 5,757 |
| Decrease in investment in securities | – | – | (35,940) | (35,940) |
| Increase in available-for-sale financial assets | – | – | 2,695 | 2,695 |
| Decrease in goodwill | – | (5,524) | – | (5,524) |
| Decrease in trade receivables | – | – | (4,685) | (4,685) |
| Decrease in prepayments, deposits and other receivables | – | – | (4,745) | (4,745) |
| | – | (5,524) | (42,675) | (48,199) |
| **Decrease in reserve** | – | (5,524) | (42,675) | (48,199) |

**Consolidated income statement**

*For the year ended 31 March 2006*

| | HKAS 17 | HKFRS 3, HKAS 36 and 38 | HKAS 39 | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Decrease in depreciation | (484) | – | – | (484) |
| Increase in amortisation of leasehold land | 484 | – | – | 484 |
| Impairment of goodwill | – | 5,524 | – | 5,524 |
| Impairment loss on available-for-sale financial assets | – | – | 33,245 | 33,245 |
| Impairment loss on trade receivables | – | – | 4,685 | 4,685 |
| Impairment loss on prepayments, deposits and other receivables | – | – | 4,745 | 4,745 |
| Increase in loss attributable to equity holders of the Company | – | 5,524 | 42,675 | 48,199 |
| Increase in loss per shares (HK$) | – | 0.017 | 0.133 | 0.150 |

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 2. BASIS OF PREPARATION *(Continued)*

**Consolidated balance sheet**

*As at 31 March 2005*

| | HKAS 17 | HKFRS 3, HKAS 36 and 38 | HKAS 39 | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Decrease in property, plant and equipment | (6,241) | – | – | (6,241) |
| Increase in leasehold land | 6,241 | – | – | 6,241 |
| | – | – | – | – |

There was no impact on the reserves from the adoption of HKAS 17 as at 31 March 2005.

**Consolidated income statement**

*For the year ended 31 March 2005*

| | HKAS 17 | HKFRS 3, HKAS 36 and 38 | HKAS 39 | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Decrease in depreciation | (119) | – | – | (119) |
| Increase in amortisation of leasehold land | 119 | – | – | 119 |

There was no impact on earnings per share from the adoption of HKAS 17 for the year ended 31 March 2005.

With effect from 1 April 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet as part of equity, separately from interests attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company. These changes in presentation have been applied retrospectively with comparatives figures restated.

## 2. BASIS OF PREPARATION *(Continued)*

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures |
| HKAS 19 (Amendment) | Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 21 (Amendment) | The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transaction |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKFRS 39 & HKFRS 4 (Amendment) | Financial Guarantee Contracts |
| HKFRS 1 (Amendment) | First-time Adoption of Hong Kong Financial Reporting Standards |
| HKFRS 7 | Financial Instruments: Disclosure |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contain a Lease |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 Financial Report in Hyperinflationary Economies |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded derivatives |

The HKAS 1 (Amendment) shall be applied for annual periods beginning on or after 1 April 2007. The revised standard will affect the disclosure about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated accounts, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit and loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated accounts as at 31 March 2006 and 2005.

HKAS 39 (Amendment) The Fair Value Option changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will comply this amendment from accounting periods beginning on 1 April 2006.

HKAS 39 and HKFRS 4 (Amendment) Financial Guarantee Contracts requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Company regards its financial guarantees provided to its subsidiaries as insurance contracts.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 2. BASIS OF PREPARATION *(Continued)*

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual period beginning on or after 1 April 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application. A summary of significant accounting policies followed by the Group and the Company in the preparation of the financial statements is set out below:

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *(a) Basis of consolidation*

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

*(i) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operation policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received or receivables.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

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

#### *(b) Goodwill*

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries, associates and jointly controlled entities at the date of acquisition. In the case of jointly-controlled entities and associates, goodwill is included in the carrying amount rather than as a separate identifiable asset on the consolidated balance sheet.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset. Prior to the adoption of the new HKFRS, goodwill is amortised on a straight-line basis over its estimated useful life of a period up to a maximum of 15 years. Following the adoption of HKFRS 3, goodwill ceased to be amortised from 1 April 2005 in which it will be tested annually for impairment. The goodwill is therefore carried at cost less accumulated impairment losses and any accumulated amortisation brought forward has been eliminated against the cost of goodwill.

On disposal of subsidiaries, jointly-controlled entities and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the date of acquisition is written back and included in the calculation of the gain and loss on disposal.

#### *(c) Segment reporting*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

#### *(d) Foreign currency translation*

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

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

#### *(d) Foreign currency translation (Continued)*

*(iii) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### *(e) Property, plant and equipment*

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight-line method, over their estimated useful lives. The principal annual rates are as follows:

| | |
|---|---|
| Buildings | 2.5% |
| Leasehold improvements | 20% |
| Office equipment | 20% |
| Furniture and fixtures | 20% |
| Motor vehicles | 20% |

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

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

*(f) Leasehold land*

Leasehold land represents prepaid lease payment made for leasehold land. Interest in leasehold land is stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The cost of leasehold land is amortised on a straight-line basis over the unexpired lease terms.

*(g) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

*(h) Investment*

Before adoption of new HKFRSs, the Group classified the investment in listed equity securities as investment in securities.

From 1 April 2005 onward, the Group classifies its investments in the following categories depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

*(i) Financial assets at fair value through profit and loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

*(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

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

#### *(h) Investment (Continued)*

*(iv) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

#### *(i) Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Work in progress and finished goods comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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

*(j) Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

*(k) Cash and cash equivalents*

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

*(l) Impairment of assets*

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

*(i) Calculation of recoverable amount*

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

*(ii) Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

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

#### *(m) Impairment of financial assets*

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit and loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are significant, and individually or collectively for financial assets that are not individual significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after impairment was recognised, the previous recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognsied in the income statement, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

*Assets carried at cost*

If there is objective that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### *(n) Provision*

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 money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

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

#### *(o) Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

#### *(p) Revenue recognition*

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured realiably, on the following bases:–

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

(ii) Service income is recognised when services are provided;

(iii) Sales of merchandise are recognised when goods are delivered and title is passed;

(iv) Interest income, is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(v) Dividend income from available-for-sale financial assets are recognised when the shareholder's right to receive payment is established.

#### *(q) 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 can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

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

#### *(q) Taxation (Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is 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.

#### *(r) Foreign currencies*

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

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

#### *(s) Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

#### *(t) Employee benefits*

*(i) Bonuses*

The Group recognises a liability for bonuses when there is a contractual obligation and the amount can be estimated reliably.

*(ii) Retirement benefit obligations*

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.

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

*(t) Employee benefits (Continued)*

*(iii) Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

*(iv) Share-based compensation*

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards are recognised as an expense in the income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

*(u) 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 Company. 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 future events not wholly within the control of the Company. A contingent asset is not recognised but is 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.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

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

#### *(v) Related parties transactions*

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit or the employees of the Group, or of any entity that is related party of the Group.

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

### 4. FINANCIAL RISK MANAGEMENT

#### *4.1 Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (foreign exchange risk), credit risk, liquidity risk and cash flow and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's treasury function operates as a centralised service for managing financial risks and for providing cost efficient funding to the Group.

*(a) Market risk – Foreign exchange risk*

The Group operates mainly in both the Macau and Hong Kong and majority of transactions are dominated in Hong Kong dollars and Renminbi. Therefore, the foreign exchange risk of the Group is minimal. In addition, the Group does not have any foreign currency investments which has been hedged by currency borrowings and other hedging investments.

*(b) Credit risk*

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with appropriate credit history. The exposures to these credit risks are monitored on an ongoing basis.

## 4. FINANCIAL RISK MANAGEMENT *(Continued)*

### *4.1 Financial risk factors (Continued)*

*(c) Liquidity risk*

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

*(d) Cash flow and fair value interest rate risk*

Borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk.

The Group monitors the interest rate risk exposure on a continuous basis and adjusts the portfolio of borrowings where necessary.

### *4.2 Fair value estimation*

The carrying amounts of the following other investments/financial assets and liabilities approximate their fair value including cash and cash equivalent, trade receivables, prepayment, deposit and other receivables, trade and other payables and amount due to a director.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### *(a) Estimated impairment of goodwill*

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 3(g). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

### *(b) Provision for impairment of receivables*

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

#### *(c) Useful lives of property, plant and equipment*

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment that to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, and technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

#### *(d) Net realisable of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

### 6. TURNOVER

The Group's turnover comprised of the followings:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Apparel sourcing services | **4,524** | 81,984 |
| Apparel trading | **43,904** | 19,990 |
| | **48,428** | 101,974 |

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

### 7. 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 form 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 customers, and assets are attributed to the segments based on the location of the assets.

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 7. SEGMENT INFORMATION *(Continued)*

*Business segments*

The following table provides an analysis of the Group's revenues, results and certain assets, liabilities and expenditure information by business nature:

| | Continuing operations | | | | | | | | Discontinued operation | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Apparel sourcing services | | Apparel trading | | Sales support services | | Subtotal | | Marketing and compliance monitoring services | | Consolidated Total | |
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 (Restated) | **HK$'000** | HK$'000 (Restated) | **HK$'000** | HK$'000 (Restated) | **HK$'000** | HK$'000 (Restated) | **HK$'000** | HK$'000 (Restated) | **HK$'000** | HK$'000 (Restated) |
| Segment revenue | | | | | | | | | | | | |
| Sales to external customers | **4,524** | 81,984 | **43,904** | 19,990 | **-** | – | **48,428** | 101,974 | **-** | – | **48,428** | 101,974 |
| Segment results | **(3,252)** | 8,823 | **(14,236)** | 7,734 | **-** | – | **(17,488)** | 16,557 | **-** | (2,985) | **(17,488)** | 13,572 |
| Other revenue | | | | | | | | | | | **431** | 380 |
| Net unallocated expenses | | | | | | | | | | | **(43,499)** | – |
| (Loss)/profit from operations | | | | | | | | | | | **(60,556)** | 13,952 |
| Gain/(loss) on disposal of a subsidiary | | | | | | | | | | | **1,098** | (2,585) |
| Finance costs | | | | | | | | | | | **(149)** | (193) |
| (Loss)/profit before taxation | | | | | | | | | | | **(59,607)** | 11,174 |
| Taxation | | | | | | | | | | | **(20,003)** | (1,293) |
| (Loss)/profit for the year | | | | | | | | | | | **(79,610)** | 9,881 |
| Net (loss)/profit from ordinary activities attributable to the equity holders of the Company | | | | | | | | | | | **(79,610)** | 2,160 |
| Minority interests | | | | | | | | | | | **-** | 7,721 |
| | | | | | | | | | | | **(79,610)** | 9,881 |

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

## 7. SEGMENT INFORMATION *(Continued)*

*Business segments (Continued)*

| | Continuing operations | | | | | | | | Discontinued operation | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Apparel sourcing services | | Apparel trading | | Sales support services | | Subtotal | | Marketing and compliance monitoring services | | Consolidated Total | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | (Restated) | | (Restated) | | (Restated) | | (Restated) | | (Restated) | | (Restated) |
| Segment assets | 3,654 | 28,642 | 25,524 | 17,030 | 52 | 327 | 29,230 | 45,999 | - | – | 29,230 | 45,999 |
| Unallocated assets | | | | | | | | | | | 12,194 | 53,574 |
| Total assets | | | | | | | | | | | 41,424 | 99,573 |
| Segment liabilities | 2,821 | 5,053 | 9,317 | 3,030 | - | – | 12,138 | 8,083 | - | – | 12,138 | 8,083 |
| Unallocated liabilities | | | | | | | | | | | 26,035 | 6,367 |
| Total liabilities | | | | | | | | | | | 38,173 | 14,450 |
| Other segment information: | | | | | | | | | | | | |
| Capital expenditure | - | 1,672 | 439 | 2,942 | - | – | 439 | 4,614 | - | – | 439 | 4,614 |
| Unallocated capital expenditure | | | | | | | | | | | 284 | – |
| | | | | | | | | | | | 723 | 4,614 |
| Depreciation and amortisation | 722 | 320 | 1,824 | 453 | 426 | 255 | 2,972 | 1,028 | - | – | 2,972 | 1,028 |
| Unallocated depreciation and amortisation | | | | | | | | | | | 659 | 189 |
| | | | | | | | | | | | 3,631 | 1,217 |
| Impairment loss on property, plant and equipment | – | – | - | – | 169 | – | 169 | – | - | – | 169 | – |
| Other non-cash expenses | 3,595 | 320 | 11,241 | 453 | 169 | 255 | 15,005 | 1,028 | - | – | 15,005 | 1,028 |
| Unallocated other non-cash expenses | | | | | | | | | | | 43,514 | 3,989 |
| | | | | | | | | | | | 58,519 | 5,017 |

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 7. SEGMENT INFORMATION *(Continued)*

*Geographical segments*

| | Segment revenue | | | | | | Segment results | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Continuing operations | | Discontinued operations | | Total | | Continuing operations | | Discontinued operations | | Total | |
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | | (Restated) | | (Restated) | | (Restated) | | (Restated) | | (Restated) | | (Restated) |
| Hong Kong | **13,202** | 6,106 | **-** | – | **13,202** | 6,106 | **(4,653)** | 339 | **-** | – | **(4,653)** | 339 |
| Russia | **1,052** | 31,872 | **-** | – | **1,052** | 31,872 | **(253)** | 2,024 | **-** | – | **(253)** | 2,024 |
| South Korea | **1,545** | 29,203 | **-** | – | **1,545** | 29,203 | **(1,541)** | 1,625 | **-** | – | **(1,541)** | 1,625 |
| Panama | **1,006** | 8,901 | **-** | – | **1,006** | 8,901 | **(562)** | 1,654 | **-** | – | **(562)** | 1,654 |
| USA | **1,421** | 12,008 | **-** | – | **1,421** | 12,008 | **(1,428)** | 4,268 | **-** | – | **(1,428)** | 4,268 |
| PRC | **8,954** | 9,532 | **-** | – | **8,954** | 9,532 | **(1,062)** | 2,541 | **-** | – | **(1,062)** | 2,541 |
| Macau | **21,248** | 4,352 | **-** | – | **21,248** | 4,352 | **(7,989)** | 1,121 | **-** | – | **(7,989)** | 1,121 |
| | **48,428** | 101,974 | **-** | – | **48,428** | 101,974 | **(17,488)** | 13,572 | **-** | – | **(17,488)** | 13,572 |
| Unallocated other revenue | | | | | | | | | | | **431** | 380 |
| Unallocated corporate expenses | | | | | | | | | | | **(43,499)** | – |
| (Loss)/profit from operations | | | | | | | | | | | **(60,556)** | 13,952 |
| Finance costs | | | | | | | | | | | **(149)** | (193) |
| Gain/(loss) on disposal of a subsidiary | | | | | | | | | | | **1,098** | (2,585) |
| (Loss)/profit before taxation | | | | | | | | | | | **(59,607)** | 11,174 |
| Taxation | | | | | | | | | | | **(20,003)** | (1,293) |
| (Loss)/profit for the year | | | | | | | | | | | **(79,610)** | 9,881 |
| Net (loss)/profit from ordinary activities attributable to the equity holders of the Company | | | | | | | | | | | **(79,610)** | 2,160 |
| Minority interests | | | | | | | | | | | **-** | 7,721 |
| (Loss)/profit for the year | | | | | | | | | | | **(79,610)** | 9,881 |

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 7. SEGMENT INFORMATION *(Continued)*

*Geographical segments (Continued)*

| | Segment assets | | | | | | Segment liabilities | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Continuing operations | | Discontinued operations | | Total | | Continuing operations | | Discontinued operations | | Total | |
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 Restated | **HK$'000** | HK$'000 Restated | **HK$'000** | HK$'000 Restated | **HK$'000** | HK$'000 Restated | **HK$'000** | HK$'000 Restated | **HK$'000** | HK$'000 Restated |
| Hong Kong | **31,692** | 91,032 | **-** | – | **31,692** | 91,032 | **29,995** | 9,331 | **-** | – | **29,995** | 9,331 |
| Macau | **9,732** | 8,541 | **-** | – | **9,732** | 8,541 | **8,178** | 5,119 | **-** | – | **8,178** | 5,119 |
| Total | **41,424** | 99,573 | **-** | – | **41,424** | 99,573 | **38,173** | 14,450 | **-** | – | **38,173** | 14,450 |

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 8. 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 was 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 HK2,585,000 was charged 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 were as follows:

| | **2006**<br>**HK$'000** | 2005<br>HK$'000 |
|---|---|---|
| Turnover | **–** | – |
| Selling expenses | **–** | (2,752) |
| Administrative expenses | **–** | (232) |
| Loss from operations | **–** | (2,984) |
| Taxation | **–** | – |
| Net loss for the year | **–** | (2,984) |
| Total assets | **–** | 13,679 |
| Total liabilities, including amount due to the Group of approximately HK$8,286,000 | **–** | (8,294) |
| Net assets | **–** | 5,385 |
| Net cash used in operating activities | **–** | (6) |
| Net cash used in investing activities | **–** | (2,984) |
| Total net cash outflow | **–** | (2,990) |

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 9. PROPERTY, PLANT AND EQUIPMENT

*The Group*

| | Buildings<br>HK$'000<br>(Restated) | Leasehold improvements<br>HK$'000 | Furniture and fixtures<br>HK$'000 | Office equipment<br>HK$'000 | Motor vehicles<br>HK$'000 | Total<br>HK$'000<br>(Restated) |
|---|---|---|---|---|---|---|
| **At cost:** | | | | | | |
| At 1 April 2004, as previously reported | 14,130 | 2,663 | 1,489 | 1,059 | 753 | 20,094 |
| Effect on adoption of HKAS 17 | (7,115) | – | – | – | – | (7,115) |
| At 1 April 2004, as restated | 7,015 | 2,663 | 1,489 | 1,059 | 753 | 12,979 |
| Additions | – | 3,782 | 302 | 530 | – | 4,614 |
| Acquisition of a subsidiary | – | 1,361 | 457 | 238 | – | 2,056 |
| At 31 March 2005 and At 1 April 2005 | 7,015 | 7,806 | 2,248 | 1,827 | 753 | 19,649 |
| Additions | – | 383 | 284 | 56 | – | 723 |
| Disposal of a subsidiary | – | (2,043) | (859) | (836) | – | (3,738) |
| At 31 March 2006 | 7,015 | 6,146 | 1,673 | 1,047 | 753 | 16,634 |
| **Accumulated depreciation:** | | | | | | |
| At 1 April 2004, as previously reported | 1,088 | 82 | 274 | 288 | 735 | 2,467 |
| Effect on adoption of HKAS 17 | (755) | – | – | – | – | (755) |
| At 1 April 2004, as restated | 333 | 82 | 274 | 288 | 735 | 1,712 |
| Charge for the year | 70 | 264 | 410 | 336 | 18 | 1,098 |
| Acquisition of a subsidiary | – | 280 | 35 | 45 | – | 360 |
| At 31 March 2005 and At 1 April 2005 | 403 | 626 | 719 | 669 | 753 | 3,170 |
| Charge for the year | 175 | 2,065 | 522 | 385 | – | 3,147 |
| Disposal of a subsidiary | – | (1,192) | (382) | (381) | – | (1.955) |
| At 31 March 2006 | 578 | 1,499 | 859 | 673 | 753 | 4,362 |
| **Impairment:** | | | | | | |
| At 1 April 2004 and 31 March 2005 | – | – | – | – | – | – |
| Charge for the year | – | – | 49 | 120 | – | 169 |
| At 31 March 2006 | – | – | 49 | 120 | – | 169 |
| **Net book value:** | | | | | | |
| At 31 March 2006 | 6,437 | 4,647 | 765 | 254 | – | 12,103 |
| At 31 March 2005 | 6,612 | 7,180 | 1,529 | 1,158 | – | 16,479 |

As 31 March 2006, the Group's buildings are situated in Hong Kong under long term lease.

As at 31 March 2006, the Group's buildings with carrying amount of HK$4,612,000 (2005: HK$4,650,000) were pledged to secure a mortgage loan granted to the Group (note 19).

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

9. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

*The Company*

| | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 April 2004 | – | – | – |
| Additions | 157 | 127 | 284 |
| At 31 March 2005 and at 31 March 2006 | 157 | 127 | 284 |
| **Accumulated depreciation:** | | | |
| At 1 April 2004 | – | – | – |
| Charge for the year | 31 | 25 | 56 |
| At 31 March 2005 and at 1 April 2005 | 31 | 25 | 56 |
| Charge for the year | 52 | 31 | 83 |
| At 31 March 2006 | 83 | 56 | 139 |
| **Net book value:** | | | |
| At 31 March 2006 | 74 | 71 | 145 |
| At 31 March 2005 | 126 | 102 | 228 |

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

## 10. LEASEHOLD LAND

*The Group*

| | **2006** **HK$'000** | 2005 HK$'000 (Restated) |
|---|---|---|
| **Cost:** | | |
| At 1 April 2005/2004 as previously reported | **–** | – |
| Effect on adoption of HKAS 17 | **7,115** | 7,115 |
| At 1 April 2005/2004, as restated and at 31 March 2006/2005 | **7,115** | 7,115 |
| **Accumulated amortisation:** | | |
| At 1 April 2005/2004, as previously reported | **–** | – |
| Effect on adoption of HKAS 17 | **874** | 755 |
| At 1 April 2005/2004, as restated | **874** | 755 |
| Charge for the year | **484** | 119 |
| As at 31 March 2006/2005 | **1,358** | 874 |
| **Net Book Value:** | | |
| At 31 March 2006/2005 | **5,757** | 6,241 |

The Group's interests in leasehold land represents prepaid operating lease payments in respect of leasehold land in Hong Kong under long-term lease and their net book value is analysed as follows:

| | **2006** **HK$'000** | 2005 HK$'000 (Restated) |
|---|---|---|
| Land in Hong Kong, held on: | | |
| Long-term leases | **5,757** | 6,241 |

As at 31 March 2006, the Group's leasehold land with carrying amount of HK$4,606,000 (2005: HK$4,639,000) were pledged to secure a mortgage loan granted to the group *(note 19)*.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 11. GOODWILL

*The Group*

| | HK$'000 |
|---|---|
| **Cost:** | |
| At 1 April 2004 and at 31 March 2005 | 5,913 |
| Elimination of accumulated amortisation upon adoption of HKFRS 3 | (389) |
| At 31 March 2006 | 5,524 |
| **Accumulated amortisation:** | |
| At 1 April 2004 | 118 |
| Charge for the year | 271 |
| At 31 March 2005 and at 1 April 2005 | 389 |
| Elimination of accumulated amortisation upon adoption of HKFRS 3 | (389) |
| At 31 March 2006 | – |
| **Impairment:** | |
| At 1 April 2004 and at 31 March 2005 | – |
| Impairment loss recognised | 5,524 |
| At 31 March 2006 | 5,524 |
| **Carrying amount:** | |
| At 31 March 2006 | – |
| At 31 March 2005 | 5,524 |

(i) In prior years, Goodwill is amortised over a period of 15 years. Following the adoption of HKFRS 3, amortisation of goodwill has ceased since 1 April 2005. The accumulated amortisation of goodwill as at 1 April 2005 has been eliminated against the cost of goodwill as at that date. Annual impairment review was performed.

(ii) Goodwill is allocated to the Group's cash generating unit ("CGU") identified according to country of operation at business segment as follows:–

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Provision of apparel sourcing, quality assurance and social compliance monitoring services | **–** | 5,524 |

The recoverable amount of CGU is determined based on the value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flow beyond five-year period is extrapolated using the estimated rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 11. GOODWILL *(Continued)*

*The Group (Continued)*

Key assumptions used for value-in-use calculations:

| | |
|---|---|
| Gross margin | 35% |
| Growth rate | 20% |
| Discount rate | 7% |

Management determined the budget gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are calculated in accordance with the total amounts and terms of signed contracts. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

(iii) Due to operating loss incurred by the subsidiary, the director reassessed the recoverable amount of the goodwill and made impairment loss approximately HK$5,524,000.

### 12. INTERESTS IN SUBSIDIARIES

*The Company*

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **22,316** | 32,916 |
| Less: Impairment loss on interests in subsidiaries | **(7,042)** | – |
| | **15,274** | 32,916 |
| Amounts due from subsidiaries | **22,641** | 38,281 |
| Less: Impairment loss on amounts due from subsidiaries | **(22,641)** | – |
| | **–** | 38,281 |
| | **15,274** | 71,197 |

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

## 12. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name | Place of incorporation | Particular of issued and paid up capital | Percentage and of equity attributable to the Company 2006 % | 2005 % | Principal activities |
|---|---|---|---|---|---|
| *Directly held* | | | | | |
| Sun Ace Group Limited | British Virgin Islands ("BVI") | US$1 Ordinary | **100** | 100 | Investment holding |
| Fair Good Limited | BVI | US$1 Ordinary | **100** | 100 | Investment holding |
| *Indirectly held* | | | | | |
| Sun Tai Hing Garment Making Company Limited | Hong Kong | HK$115,000 Ordinary | **100** | 100 | Provision of sales support services |
| Easy Billion International Enterprise Limited | Hong Kong | HK$10,000 Ordinary | **100** | 100 | Investment holding |
| East Step Trading Limited | Hong Kong | HK$1 Ordinary | **100** | 100 | Apparel trading (Hong Kong based) |
| Gala Consultants Group Limited | BVI | US$1 Ordinary | **100** | 100 | Apparel trading (Overseas based) |
| Elite Team Inc. | BVI | US$1 Ordinary | **100** | 100 | Investment holding |
| Fanlink Far East Limited | BVI | US$1 Ordinary | **100** | 100 | Investment holding |

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

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and recoverable/(repayable) on demand.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

As mentioned in note 2 to the financial statements, from 1 April 2005, the Group's investment in securities have been reclassified to available-for-sale financial assets in accordance with HKAS 39. The details of the Group's available-for-sale financial assets as at 31 March 2006 and at 31 March 2005 have been summarised below:–

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Held for non-trading purpose: | | |
| Listed equity securities – Hong Kong, at cost | **31,260** | 31,260 |
| Listed equity securities – outside Hong Kong, at cost | **4,680** | 4,680 |
| | **35,940** | 35,940 |
| Impairment loss on available-for-sale financial assets | **(33,245)** | – |
| At 31 March | **2,695** | 35,940 |

### 14. INVENTORIES

*The Group*

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Finished goods | **15,640** | 11,303 |
| Less: Provision for obsolete inventories | **(6,689)** | – |
| | **8,951** | 11,303 |

*Note:*

The movement of provision on obsolete inventories were as follows:–

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance as at 1 April 2005/2004 | **–** | – |
| Provision on obsolete inventories | **6,689** | – |
| Balance as at 31 March 2006/2005 | **6,689** | – |

## 15. TRADE RECEIVABLES

*The Group*

The Group's general credit terms granted to its customers ranged form 0 – 60 days (2005: 0 – 60 days). The following is an aged analysis of the trade receivables at the balance sheet date.

| | **2006** **HK$'000** | 2005 *HK$'000* |
|---|---|---|
| Within 30 days | **3,586** | 8,485 |
| Between 31 to 60 days | **1,806** | 484 |
| Between 61 days to 1 year | **4,685** | – |
| | **10,077** | 8,969 |
| Less: Impairment loss on trade receivables | **(4,685)** | – |
| | **5,392** | 8,969 |

*Notes:*

i. The carrying amount of trade receivables approximately to their fair value.

ii. The movements in Impairment loss on trade receivables were as follows:

| | **2006** **HK$'000** | 2005 *HK$'000* |
|---|---|---|
| At 1 April 2005/2004 | **–** | – |
| Impairment loss on trade receivables | **4,685** | – |
| At 31 March 2006/2005 | **4,685** | – |

## 16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2006** **HK$'000** | 2005 *HK$'000* | **2006** **HK$'000** | 2005 *HK$'000* |
| Prepayments | **2,096** | 3,689 | **226** | 85 |
| Rental and utility deposits | **1,910** | 2,437 | **–** | – |
| Other receivables | **32** | – | **–** | – |
| Loan receivables | **–** | 2,000 | **–** | – |
| Investment deposits | **–** | 2,745 | **–** | – |
| | **4,038** | 10,871 | **226** | 85 |

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

## 16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

The fair value of the Group's prepayments, deposits and other receivables as at 31 March 2006 approximately to the corresponding carrying amount.

## 17. SHARE CAPITAL

*The Company*

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Authorised: | | |
| 10,000,000,000 ordinary shares of HK$0.01 each | **100,000** | 100,000 |
| Issued and fully paid: | | |
| 320,000,000 ordinary shares of HK$0.01 each | **3,200** | 3,200 |

## 18. RESERVES

*The Group*

| | **Contributed surplus** HK$'000 (Note i) | **Share premium account** HK$'000 | **(Accumulated losses)/ retained profits** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 April 2004 | (84) | 25,146 | 52,440 | 77,502 |
| Release upon disposal of a subsidiary | (1) | – | – | (1) |
| Net profit for the year | – | – | 2,160 | 2,160 |
| At 31 March 2005 and At 1 April 2005 | (85) | 25,146 | 54,600 | 79,661 |
| Net loss for the year | – | – | (79,610) | (79,610) |
| At 31 March 2006 | (85) | 25,146 | (25,010) | 51 |

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 18. RESERVES *(Continued)*

*The Company*

| | Contributed surplus HK$'000 (Note ii) | Share premium account HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2004 | 22,117 | 25,146 | (905) | 46,358 |
| Release upon disposal of a subsidiary | (1) | – | – | (1) |
| Net loss for the year | – | – | (4,099) | (4,099) |
| At 31 March 2005 and At 1 April 2005 | 22,116 | 25,146 | (5,004) | 42,258 |
| Net loss for the year | – | – | (41,527) | (41,527) |
| At 31 March 2006 | 22,116 | 25,146 | (46,531) | 731 |

*Notes:*

**Contributed surplus**

(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 thereof.

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

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.

(iii) In the opinion of the directors, the Company did not have any reserves available for distribution to shareholders at 31 March 2006. As at 31 March 2005, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$47,262,000.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

## 19. INTEREST-BEARING BANK BORROWINGS – SECURED

*The Group*

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mortgage loan repayable: | | |
| Within one year or on demand | **261** | 250 |
| In the second year | **264** | 255 |
| In the third to fifth years, inclusive | **827** | 792 |
| Beyond five years | **4,598** | 4,903 |
| | **5,950** | 6,200 |
| Portion classified as current liabilities | **(261)** | (250) |
| Long term portion | **5,689** | 5,950 |

The Group's mortgage loan was secured by the followings:

(i) legal charge over the leasehold land and buildings of the Group with an aggregate net book value of approximately HK$4,606,000 and HK$4,612,000 respectively (2005: HK$4,639,000 and HK$4,650,000) (note 9 and 10); and

(ii) personal guarantee executed by a director of the Company.

## 20. DEFERRED TAXATION

Deferred tax liabilities arising from accelerated tax depreciation is as follows:

| | **The Group** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| At 31 March 2006/2005 | **167** | 167 |

At 31 March 2006, there was no significant unrecognised deferred tax liabilities (2005: HK$Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liabilities to additional tax should amounts be remitted.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 21. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade payables: | | | | |
| Within 90 days | **1,628** | 5,498 | **–** | – |
| Within 91 days to 180 days | **727** | 482 | **–** | – |
| | **2,355** | 5,980 | **–** | – |
| Accrued expenses due within 30 days or on demand | **990** | 929 | **469** | 403 |
| | **3,345** | 6,909 | **469** | 403 |

The carrying amount of trade and other payables approximately to their fair value.

### 22. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, non-interest bearing and repayable on demand.

The amount due to a director was secured by the corporate guarantee executed by the Company.

### 23. OTHER REVENUE

*The Group*

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank interest income | **240** | 200 |
| Dividend income received from available-for-sale financial assets | **191** | 159 |
| Sundry income | **–** | 21 |
| | **431** | 380 |

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 24. (LOSS)/PROFIT FROM OPERATIONS

Expenses included in cost of goods sold, selling expenses and administrative expenses are analysed as follows:–

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Cost of inventories expensed | **38,892** | 73,674 |
| Employee benefit expenses *(Note 25)* | **3,172** | 2,640 |
| Depreciation | **3,147** | 1,098 |
| Amortisation of intangible assets | **–** | 233 |
| Amortisation of goodwill | **–** | 271 |
| Amortisation of leasehold land | **484** | 119 |
| Auditors' remuneration | **660** | 500 |
| Impairment loss on loan receivable | **2,000** | – |
| Impairment loss on investment deposits | **2,745** | – |
| Provision for obsolete inventories | **6,689** | – |
| Operating lease rental in respect of rental premises | **1,163** | 516 |
| Irrecoverable bad debts | **–** | 3,800 |

### 25. EMPLOYEE BENEFIT EXPENSES

*The Group*

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| (a) Employee benefit expenses are analysed as follows: | | |
| Wages, salaries and allowance | **2,981** | 2,467 |
| Retirement benefit contributions | **191** | 173 |
| | **3,172** | 2,640 |

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 25. EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Directors and senior management emoluments

| | Fee | | Salaries, bonus and other benefits | | Pension scheme contributions | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Name of directors** | | | | | | | | |
| *Executive directors* | | | | | | | | |
| Tsai Lai Wa, Jenny | **-** | – | **-** | 129 | **-** | – | **-** | 129 |
| Edmund Siu | **-** | – | **120** | 120 | **6** | – | **126** | 120 |
| Mao Yue | **-** | – | **240** | 20 | **12** | – | **252** | 20 |
| | **-** | – | **360** | 269 | **18** | – | **378** | 269 |
| *Independent non-executive directors* | | | | | | | | |
| Lo Wing Yan, Emmy | **100** | 100 | **-** | – | **-** | – | **100** | 100 |
| Fu Wing Kwok, Ewing | **100** | 30 | **-** | – | **-** | – | **100** | 30 |
| Liang Kwong Lim | **100** | 20 | **-** | – | **-** | – | **100** | 20 |
| | **300** | 150 | **-** | – | **-** | – | **300** | 150 |
| | **300** | 150 | **360** | 269 | **18** | – | **678** | 419 |

The remuneration of all of the director fell within the nil to HK$500,000 band for the two years ended 31 March 2005 and 2006.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2005: one) directors whose emoluments are set out in note 25(b) above. The emoluments of the remaining four (2005: four) individuals were follows.

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Wages, salaries and allowance | **580** | 492 |
| Retirement benefit contributions | **21** | 17 |
| | **601** | 509 |

The emoluments on each of the remaining four highest paid individuals fell within the followings bands:

| | **Number of individual** | |
|---|---|---|
| | **2006** | 2005 |
| Emolument bands: | | |
| Nil to HK$500,000 | **4** | 4 |

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 26. FINANCE COSTS

*The Group*

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank charges | **15** | 21 |
| Mortgage loan interest wholly repayable over five years | **134** | 172 |
| | **149** | 193 |

### 27. TAXATION

*The Group*

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Tax on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current – Hong Kong | | |
| Charge for the year | **85** | 60 |
| Provision for estimated assessments of tax liabilities *(Note (i))* | **19,918** | – |
| Current – Elsewhere | | |
| Charge for the year | **–** | 1,254 |
| Over provision in prior year | **–** | (21) |
| Total tax charge for the year | **20,003** | 1,293 |

*Notes:*

(i) During the year, the Hong Kong Inland Revenue Department ("IRD") issued certain estimated assessments for tax liabilities of approximately HK$19,918,000 to a subsidiary on the non-taxable claim of non-Hong Kong sourced income for the years of assessment of 1998/1999, 1999/2000, 2000/2001, 2001/2002, 2002/2003 and 2003/2004 ("Estimated Assessments"). The concerned subsidiary has formally filed objections to the IRD against the Estimated Assessments and the concerned subsidiary is still in the process of answering queries from the IRD. The directors considered that full provision on the tax liabilities of the Estimated Assessments was required as the result of the objections regarding the Estimated Assessments is uncertain.

(ii) A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax expense/(income) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

27. TAXATION *(Continued)*

**The Group – for the year ended 31 March 2006**

| | Hong Kong | | Others | | Total | |
|---|---|---|---|---|---|---|
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| **Loss before taxation** | **(49,322)** | | **(10,285)** | | **(59,607)** | |
| **Tax at the statutory tax rate** | **(8,631)** | **(17.5)** | **(1,543)** | **(15)** | **(10,174)** | **(17.1)** |
| **Tax effect of expenses that are not deductible in determining taxable profit** | **8,791** | **17.8** | **1,063** | **10.3** | **9,854** | **16.5** |
| **Tax effect of income that is not taxable in determining taxable profit** | **(75)** | **(0.1)** | **-** | **-** | **(75)** | **(0.1)** |
| **Provision for tax liabilities** | **19,918** | **40.4** | **-** | **-** | **19,918** | **33.4** |
| **Effect of tax losses not recognised** | **-** | **-** | **480** | **4.7** | **480** | **0.8** |
| **Tax charge for year** | **20,003** | **40.6** | **-** | **-** | **20,003** | **33.5** |

The Group – for the year ended 31 March 2005

| | Hong Kong | | Others | | Total | |
|---|---|---|---|---|---|---|
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| Profit/(loss) before taxation | (654) | | 11,828 | | 11,174 | |
| Tax at the statutory tax rate | (114) | (17.5) | 1,774 | 15 | 1,660 | 14.8 |
| Tax effect of expenses that are not deductible in determining taxable profit | 258 | 39.4 | 127 | 1.0 | 385 | 3.4 |
| Tax effect of income that is not taxable in determining taxable profit | (63) | (9.6) | (668) | (5.6) | (731) | (6.5) |
| Over provision in previous year | (21) | (3.2) | – | – | (21) | (0.1) |
| Tax charge for year | 60 | 9.1 | 1,233 | 10.4 | 1,293 | 11.6 |

28. LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The Group's consolidated loss attributable to shareholders is approximately HK$79,610,000 (2005: profit of HK$2,160,000) of which net loss of approximately HK$41,527,000 (2005: HK$4,099,000) is dealt with in the financial statements of the Company.

29. DIVIDEND

The directors do not recommend the payment of any dividend in respect for the year ended 31 March 2006 (2005: Nil).

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 30. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the (loss)/profit attributable to the Company's equity holders of HK$79,610,000 (2005: profit of HK$2,160,000) and on 320,000,000 (2005: 320,000,000) shares in issue during the year.

There were no potential shares in existence for the year ended 31 March 2006 and 2005, and, accordingly, no diluted loss per share has been presented.

### 31. ACQUISITION OF A SUBSIDIARY

*The Group*

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net assets acquired: | | |
| Property, plant and equipment | – | 730 |
| Inventories | – | 201 |
| Prepayment, deposits and other receivables | – | 2,930 |
| Cash and cash equivalent | – | 20 |
| Trade and other payables | – | (381) |
| | – | 3,500 |
| Purchase consideration settled in cash | – | 3,500 |

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash consideration paid | – | 3,500 |
| Cash and cash equivalent acquired | – | (20) |
| Net cash outflow in respect of the acquisition of a subsidiary | – | 3,480 |

During the year ended 31 March 2005, the Group acquired 100% interest in Gala Consultants Group Limited which is principally engaged in apparel trading.

The subsidiary acquired in 2005 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.

## 32. EMPLOYEE RETIREMENT BENEFITS

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.

## 33. 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 Share Option Scheme is 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.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 33. SHARE OPTION SCHEME *(Continued)*

*(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 Person 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 Person together with the said consideration of $1.00 is received by the Company.

*(g) Basis of determining the exercise price of the option*

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

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

(ii) the average closing price of the Shares as stated in 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 the date of this report, no share option was granted or agreed to be granted under the Share Option Scheme.

## 34. DISPOSAL OF A SUBSIDIARY

*The Group*

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Net assets disposed of: | | |
| Intangible assets | **–** | 3,835 |
| Property, plant and equipment | **1,783** | – |
| Agency costs | **–** | 9,827 |
| Prepayments, deposits and other receivables | **59** | 9 |
| Cash and cash equivalent | **26** | 8 |
| Assignment of amount due to fellow subsidiaries | **–** | (8,286) |
| Trade and other payables | **(504)** | (8) |
| Minority interests | **(2,262)** | – |
| | **(898)** | 5,385 |
| Gain/(loss) on disposal of a subsidiary attributable to discontinued operation | **1,098** | (2,585) |
| Consideration satisfied by cash | **200** | 2,800 |

***For the year ended 31 March 2006***

On 19 January 2006, the Group disposed of the 51% interests in View Joy Limited to an independent third party for a cash consideration of approximately HK$200,000, the principal activities of which is engaged in the provision of apparel sourcing, quality assurance and social compliance monitoring services. The gain on disposal of View Joy Limited amounted to approximately HK$1,098,000 has been credited to the income statement for the year.

*For the year ended 31 March 2005*

During the year ended of 31 March 2005, the Group disposed of the entire interests in Dragon City Limited which is principally engaged in the provision of marketing and compliance monitoring services for a consideration of HK2,800,000.

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

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Cash consideration received | **200** | 2,800 |
| Cash and cash equivalent disposed of | **(26)** | (8) |
| Net cash inflow in respect of the disposal of a subsidiary | **174** | 2,792 |

The subsidiary disposed of during both years ended 31 March 2006 and 2005 did not contribute significantly to the Group's cash and did not have material impact on the Group's results as a whole.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

*At 31 March 2006*

### 35. COMMITMENTS

Operating lease commitments

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

As at 31 March 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **842** | 303 |
| In the second to fifth years, inclusive | **1,096** | 329 |
| | **1,938** | 632 |

### 36. MATERIAL RELATED PARTY TRANSACTIONS

(a) *Key management personnel*

Compensation for key management personnel, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in note 25, is as follows:–

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Salaries and other short-term benefits | **660** | 419 |
| Pension scheme contributions | **18** | – |
| | **678** | 419 |

(b) The amount due to a director amounted to approximately HK$8,261,000 as at 31 March 2006 was secured by the corporate guarantee provided by the Company. The director has been resigned on 12 July 2006.

### 37. CONTINGENT LIABILITIES

Apart from the Tax Obligations imposed by the IRD against to a subsidiary of the Group amounted to approximately HK$19,918,000 as set out in note 27, the Group does not have any material contingent liabilities as at 31 March 2006.

### 38. SUBSEQUENT EVENT

On 2 June 2006, the Group entered into a disposal agreement with an independent third party for the disposal of the entire interests in Fair Good Limited, Elite Team Inc. and Easy Billion International Enterprise Limited ("Easy Billion") for a total cash consideration of approximately HK$120,000.

## 39. COMPARATIVE FIGURES

Following the adoption of new HKASs and HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified/restated to conform with the current year's presentation and accounting treatment.

## 40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 July 2006.