1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The financial statements are presented in Hong Kong dollars and the functional currency of the Company is Renminbi. The Company uses Hong Kong dollars as its presentation currency because the Company is a public company with its shares listed on the Stock Exchange.

The Company is an investment holding company. Its subsidiaries are principally engaged in bleaching, dyeing and knitting.

2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 and 1 March 2006. The adoption of these new HKFRSs has no material effect on how the results and financial position for the current and prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has also not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of this standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC) - INT 8	Scope of HKFRS 2[3]
HK(IFRIC) - INT 9	Reassessment of embedded derivatives[4]
HK(IFRIC) - INT 10	Interim financial reporting and impairment[5]
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions[6]
HK(IFRIC) - INT 12	Service concession arrangements[7]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 May 2006.
4 Effective for annual periods beginning on or after 1 June 2006.
5 Effective for annual periods beginning on or after 1 November 2006.
6 Effective for annual periods beginning on or after 1 March 2007.
7 Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with HKFRS issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of returns and allowances.

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

Service income is recognised when bleaching, dyeing and knitting services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight line method.

Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Property, plant and equipment - *continued*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

The cost of inventories comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are generally classified as loans and receivables.

Loans and receivables including trade and other receivables and bank balances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Financial instruments - *continued*

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bills payable and bank loans are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in the consolidated income statement.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or other liabilities assumed is recognised in the consolidated income statement.

Impairment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the consolidated income statement.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the consolidated income statement on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group are translated into the presentation currency at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the related operation is disposed of.

Retirement benefits costs

Payments to the state-sponsored pension scheme operated by the Mainland China government or the Mandatory Provident Fund Scheme are charged as an expense as the employees have rendered the services entitling them to the contribution.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, bills payable and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales/purchase denominated in currencies other than their functional currencies, which expose the Group to foreign currency risk.

The Group also had foreign currency exposure arising from the bank borrowings denominated in US dollars.

As the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short-term bank deposits. Since the bank deposits are all short-term in nature, any future variation in interest rates will not have a significant impact on the results of the Group.

In addition, the Group's cash flow interest rate risk also relates primarily to variable-rate borrowings (see note 20 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rates of interest so as to minimise the fair value interest rate risk.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In view of nature of business, the Group has targeted on a focused market. As at 31 March 2007, the Group has concentration of credit risk in the trade receivables balance amounting to approximately HK$37,720,000 derived from a few major customers. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

5. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods sold, net of returns, and services rendered by the Group during the year. An analysis of the Group's turnover is as follows:

	2007	2006
	HK$'000	HK$'000
Bleaching and dyeing		
- sales of goods	**71,707**	47,727
- service income	**4,257**	10,209
	75,964	57,936
Knitting services	**—**	103
	75,964	58,039

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group's primary format for reporting segment information is business segments. For management purposes, the Group is currently organised into two main operating divisions - bleaching and dyeing and knitting. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 March 2007

(i) Income statement

	Bleaching and dyeing	Knitting	Eliminations	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover				
External	75,964	—	—	75,964
Inter-segment *(note)*	—	8,292	(8,292)	—
Total	75,964	8,292	(8,292)	75,964
Segment result	(2,400)	(2,334)	—	(4,734)
Interest income				1,926
Unallocated corporate expenses				(6,948)
Finance costs				(153)
Loss before taxation				(9,909)
Taxation				(1,572)
Loss for the year				(11,481)

Note: Inter-segment sales are charged at prevailing market prices.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

For the year ended 31 March 2007 - *continued*

(ii) Balance sheet

	Bleaching and dyeing	**Knitting**	**Consolidated**
	HK$'000	HK$'000	HK$'000
ASSETS			
Segment assets	103,907	18,716	122,623
Unallocated corporate assets			82,256
Consolidated total assets			204,879
LIABILITIES			
Segment liabilities	19,800	3,053	22,853
Unallocated corporate liabilities			13,392
Consolidated total liabilities			36,245

(iii) Other information

	Bleaching and dyeing	**Knitting**	**Unallocated**	**Consolidated**
	HK$'000	HK$'000	HK$'000	HK$'000
Capital additions	2,779	409	42,058	45,246
Depreciation	1,931	1,340	61	3,332
Loss on disposal of property, plant and equipment	127	—	—	127

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

For the year ended 31 March 2006

(i) Income statement

	Bleaching and dyeing HK$'000	Knitting HK$'000	Eliminations HK$'000	Consolidated HK$'000
Turnover				
External	57,936	103	—	58,039
Inter-segment *(note)*	4	5,465	(5,469)	—
Total	57,940	5,568	(5,469)	58,039
Segment result	(25,366)	(1,434)	—	(26,800)
Interest income				1,291
Unallocated corporate expenses				(6,073)
Finance costs				(1,275)
Loss for the year				(32,857)

Note: Inter-segment sales are charged at prevailing market prices.

(ii) Balance sheet

	Bleaching and dyeing HK$'000	Knitting HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	53,728	13,034	66,762
Unallocated corporate assets			118,779
Consolidated total assets			185,541
LIABILITIES			
Segment liabilities	7,535	1,140	8,675
Unallocated corporate liabilities			1,838
Consolidated total liabilities			10,513

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

For the year ended 31 March 2006 - *continued*

(iii) Other information

	Bleaching and dyeing	Knitting	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Capital additions	430	410	3,254	4,094
Depreciation	2,004	1,315	53	3,372
Loss on disposal of property, plant and equipment	96	—	—	96

Geographical segments

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

	2007	2006
	HK$'000	HK$'000
United States of America	**—**	366
Mainland China	**75,964**	57,673
	75,964	58,039

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

	Carrying amount of segment assets		**Additions to property, plant and equipment**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**1,567**	266	**—**	—
Mainland China	**173,920**	75,257	**45,246**	4,094
	175,487	75,523	**45,246**	4,094

7. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable within five years	**153**	1,275

8. LOSS BEFORE TAXATION

	2007	2006
	HK$'000	HK$'000
Loss before taxation has been arrived at after charging:		
Directors' remuneration *(note 9(a))*	**2,700**	700
Other staff costs, including retirement benefits costs	**8,151**	6,486
Total staff costs	**10,851**	7,186
Depreciation	**3,332**	3,372
Amortisation of prepaid lease payments	**301**	168
Auditor's remuneration	**726**	538
Loss on disposal of property, plant and equipment	**127**	96
Cost of inventories recognised as an expense	**68,629**	41,536
Allowance for inventories	**—**	214
and after crediting:		
Interest income	**1,926**	1,291
Write back of allowance for inventories	**96**	—

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

Details of emoluments to the directors of the Company for the year ended 31 March 2007 are as follows:

	Tse Wing Chiu Ricky HK$'000	Lui Yuk Chu HK$'000	Kan Ka Hon HK$'000	Kwong Jimmy Cheung Tim HK$'000	Lau Sin Ming HK$'000	Total HK$'000
Fees	—	—	100	100	100	300
Other emoluments						
- Salaries and other benefits	1,200	1,200	—	—	—	2,400
Total directors' emoluments	1,200	1,200	100	100	100	2,700

Details of emoluments to the directors of the Company for the year ended 31 March 2006 are as follows:

	Tse Wing Chiu Ricky HK$'000	Lui Yuk Chu HK$'000	Koon Wing Yee HK$'000	Tsang Yiu Kai HK$'000	Kan Ka Hon HK$'000	Kwong Jimmy Cheung Tim HK$'000	Lau Sin Ming HK$'000	Total HK$'000
Fees	—	—	—	—	100	100	100	300
Other emoluments								
- Salaries and other benefits	200	200	—	—	—	—	—	400
Total directors' emoluments	200	200	—	—	100	100	100	700

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

(b) Information regarding employees' emoluments

The five highest paid individuals of the Group included two (2006: two) directors whose emoluments were included above. The emoluments of the remaining three (2006: three) highest paid individuals, not being directors, are as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and other benefits	**1,206**	943
Retirement benefits costs	**35**	30
	1,241	973

Their emoluments were all within HK$1,000,000.

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

10. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for the years ended 31 March 2007 and 2006. The amount for the year represents the taxation charge in Mainland China.

Pursuant to Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises in Mainland China, the Company's subsidiaries are entitled to preferential tax treatment with full exemption from PRC enterprise income tax for two years starting from the first profitable year of operations, after offsetting all tax losses brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years.

On 16 March 2007, the Enterprise Income Tax Law (the "new EIT law") was passed at the Fifth Session of the Tenth National People's Congress of the People's Republic of China. The new EIT law will be effective as of 1 January 2008. However, the detailed implementation rules regarding the new EIT law have not yet been issued and therefore the Group is not in a position to determine whether the Company's subsidiaries will still be entitled to the preferential tax treatment mentioned above.

10. TAXATION *- continued*

Taxation for the year can be reconciled to the results per consolidated income statement as follows:

	2007 HK$'000	2006 HK$'000
Loss before taxation	**(9,909)**	(32,857)
Tax credit at the applicable rate of 33%	**(3,270)**	(10,843)
Tax effect of income not taxable for tax purpose	**(399)**	(308)
Tax effect of expenses not deductible for tax purpose	**3,364**	10,008
Tax effect of utilisation of tax losses not previously recognised	**—**	(220)
Tax effect of tax losses not recognised	**2,076**	1,220
Tax effect attributable to concessionary tax rate in Mainland China jurisdiction	**(349)**	—
Others	**150**	143
Taxation for the year	**1,572**	—

11. BASIC LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2007 HK$'000	2006 HK$'000
Loss for the purposes of basic loss per share	**(11,481)**	(32,857)

	2007	2006
Number of shares		
Weighted average number of shares for the purposes of basic loss per share	**3,927,075,240**	2,211,495,987

The denominator for the purposes of calculating basic loss per share for the year ended 31 March 2006 has been adjusted to reflect the bonus issue of share on the basis of nine bonus shares for every share held in June 2006.

No diluted loss per share has been presented for the year ended 31 March 2006 as the exercise of the Company's outstanding share options would reduce the loss per share for that year.

No diluted loss per share has been presented for the year ended 31 March 2007 as there are no outstanding share options during the year.

12. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

(a) In the prior year, the Group had the following transactions carried out with related parties/persons deemed to be "connected persons" by the Stock Exchange, being entities controlled by certain relatives of Mr. Koon Wing Yee, a former director of the Company, and his spouse, Ms. Lui Yuk Chu, a director of the Company.

	2007	2006
	HK$'000	HK$'000
Sales of bleached and dyed fabrics	—	2,983
Bleaching and dyeing charges received	—	1,270

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

	2007	2006
	HK$'000	HK$'000
Trade receivables	—	1

(b) During the year, the Group received administrative services from a wholly owned subsidiary of Easyknit International, Easyknit International Trading Company Limited, a company in which Ms. Lui Yuk Chu, a director of the Company, has beneficial interests and paid services fee of HK$240,000 (2006: HK$240,000).

(c) In the prior year, a former director of the Company provided a personal guarantee for HK$55,000,000 to a bank in respect of general banking facilities granted to a wholly-owned subsidiary of the Company. The relevant bank loans of the subsidiary were fully repaid by applying the net proceeds from the rights issue of the Company in September 2005.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007	2006
	HK$'000	HK$'000
Short-term employee benefits	**3,018**	932

The remuneration of directors and key executives are determined by the remuneration committee and executive directors respectively having regard to the performance of individuals and market trends.

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1 April 2005	22,708	2,467	1,134	—	26,309
Currency realignment	380	82	18	—	480
Additions	107	83	271	3,633	4,094
Disposals	—	(265)	—	—	(265)
At 31 March 2006	23,195	2,367	1,423	3,633	30,618
Currency realignment	703	154	46	130	1,033
Additions	2,156	402	107	42,581	45,246
Disposals	(542)	(16)	(96)	—	(654)
At 31 March 2007	**25,512**	**2,907**	**1,480**	**46,344**	**76,243**
DEPRECIATION					
At 1 April 2005	1,945	537	166	—	2,648
Currency realignment	78	35	3	—	116
Provided for the year	2,421	699	252	—	3,372
Eliminated on disposal	—	(114)	—	—	(114)
At 31 March 2006	4,444	1,157	421	—	6,022
Currency realignment	242	108	16	—	366
Provided for the year	2,500	580	252	—	3,332
Eliminated on disposal	(242)	(12)	(59)	—	(313)
At 31 March 2007	**6,944**	**1,833**	**630**	**—**	**9,407**
CARRYING VALUES					
At 31 March 2007	**18,568**	**1,074**	**850**	**46,344**	**66,836**
At 31 March 2006	18,751	1,210	1,002	3,633	24,596

13. PROPERTY, PLANT AND EQUIPMENT - *continued*

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following useful lives per annum:

Plant and machinery	5 to 10 years
Furniture, fixtures and equipment	3 to 10 years
Motor vehicles	5 to 10 years

14. PREPAID LEASE PAYMENTS

	HK$'000
COST	
Additions and at 31 March 2006	9,165
Currency realignment	407
Additions	23,209
At 31 March 2007	**32,781**
AMORTISATION	
Provided for the year and at 31 March 2006	168
Currency realignment	14
Provided for the year	301
At 31 March 2007	**483**
CARRYING VALUE	
At 31 March 2007	**32,298**
At 31 March 2006	8,997

	2007	2006
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current asset	**656**	183
Non-current asset	**31,642**	8,814
	32,298	8,997

All of the Group's prepaid lease payments comprise medium-term land use rights situated in the Mainland China. At 31 March 2007, the Group was in the process of obtaining the land use rights certificate for land use rights with carrying value amounting to approximately HK$28,258,000.

15. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	**14,830**	4,531
Work-in-progress	**120**	21
Finished goods	**495**	77
	15,445	4,629

16. TRADE AND OTHER RECEIVABLES

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

	2007 HK$'000	2006 HK$'000
0 - 60 days	**10,026**	7,504
61 - 90 days	**10,655**	2,340
Over 90 days	**21,007**	9,934
Trade receivables	**41,688**	19,778
Other receivables and prepayments	**3,095**	1,895
	44,783	21,673

The directors consider the fair value of the Group's trade receivables approximates the corresponding carrying amount.

17. BANK BALANCES AND CASH

The amounts comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, at prevailing market interest rates ranging from 0.72% to 2.375% (2006: 0.72% to 4.19%) per annum. The directors consider the fair values of these assets approximate their corresponding carrying amounts.

18. TRADE AND OTHER PAYABLES

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

	2007 HK$'000	2006 HK$'000
0 - 60 days	**4,444**	4,963
61 - 90 days	**2,494**	1,286
Over 90 days	**1,408**	233
Trade payables	**8,346**	6,482
Other payables	**16,107**	2,365
	24,453	8,847

The directors consider the fair value of the Group's trade payables approximates the corresponding carrying amount.

19. BILLS PAYABLE

As at balance sheet date, the bills payable is aged within 120 days. The directors consider the fair value of the Group's bills payable approximates the corresponding carrying amount.

20. BANK LOANS

The bank loans are unsecured, bear interest at prevailing market rates and are repayable within one year.

All of the Group's borrowings were at variable-rates and the range of effective interest rates on the Group's borrowings are 1% per annum over the bank's HK$ best lending rates ranging from 8.75% to 9% for the year (2006: 6.25% to 9%).

As at balance sheet date, the Group's borrowings that are denominated in US dollars is HK$6,038,000 (2006: HK$984,000) and the undrawn borrowing facilities is HK$3,446,000 (2006: HK$8,334,000).

The directors consider the fair value of the Group's bank loans approximates the corresponding carrying amount.

21. SHARE CAPITAL

	Notes	Nominal value per share HK$	Number of shares	Amount HK$'000
Authorised:				
At 1 April 2005		0.10	6,500,000,000	650,000
Effect of the capital reduction	(a)(i)		—	(643,500)
		0.001	6,500,000,000	6,500
Effect of the share consolidation	(a)(iii)		(5,850,000,000)	—
At 31 March 2006		0.01	650,000,000	6,500
Increase in authorised share capital	(c)(i)	0.01	19,350,000,000	193,500
At 31 March 2007		**0.01**	**20,000,000,000**	**200,000**
Issued and fully paid:				
At 1 April 2005		0.10	357,006,840	35,701
Effect of the capital reduction	(a)(i)		—	(35,344)
		0.001	357,006,840	357
Effect of the share consolidation	(a)(iii)		(321,306,156)	—
		0.01	35,700,684	357
Rights issue of shares at a price of HK$0.40 per rights share	(b)	0.01	357,006,840	3,570
At 31 March 2006		0.01	392,707,524	3,927
Bonus issued by capitalisation of the share premium account	(c)(ii)	0.01	3,534,367,716	35,344
At 31 March 2007		**0.01**	**3,927,075,240**	**39,271**

21. SHARE CAPITAL *- continued*

Notes:

(a) In September 2005, the Company underwent a capital reorganisation (the "Capital Reorganisation"). Details of the Capital Reorganisation are set out in the circular dated 15 August 2005 issued by the Company.

At the special general meeting of the Company held on 6 September 2005, a special resolution approving the Capital Reorganisation was passed and the following capital reorganisation became effective on 9 September 2005:

(i) the par value of the authorised, issued and unissued share capital of the Company was reduced from HK$0.10 each to HK$0.001 each (the "Capital Reduction");

(ii) the amount of the cancelled paid-up capital in the sum of approximately HK$35,344,000 arising from the Capital Reduction was credited to a capital reserve account of the Company; and

(iii) every ten issued and unissued reduced shares of HK$0.001 each were consolidated into one share of HK$0.01 each (the "Consolidated Share").

(b) Rights issue of 357,006,840 shares of HK$0.01 each at a subscription price of HK$0.40 per rights share were allotted on 27 September 2005 to the shareholders of the Company in the proportion of ten rights shares for every Consolidated Share then held. The net proceeds of the rights issue amounted to approximately HK$142,000,000 of which approximately HK$69,000,000 was used for repayment of all outstanding bank loans, and the balance for general working capital purposes. All shares issued rank pari passu with the then existing shares in issue in all respects.

(c) As announced by the Company on 2 May 2006, the Company proposed the followings:

(i) to increase the authorised share capital of the Company from HK$6,500,000 to HK$200,000,000 by the creation of an additional 19,350,000,000 shares of HK$0.01 each (the "Increase in Authorised Share Capital"); and

(ii) upon the Increase in Authorised Share Capital becoming effective, to issue 3,534,367,716 bonus shares of HK$0.01 each by way of capitalisation of an amount of approximately HK$35,344,000 from the Company's share premium account on the basis of nine bonus shares for every share held (the "Bonus Issue").

At the special general meeting of the Company held on 19 June 2006, resolutions approving the Increase in Authorised Share Capital and the Bonus Issue were passed. The Increase in Authorised Share Capital and Bonus Issue became effective on 19 June 2006 and 27 June 2006 respectively.

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

Details of the above are set out, inter alia, in the circular of the Company dated 19 May 2006.

22. SHARE OPTION SCHEMES

On 22 May 2001, the Company approved a share option scheme (the "2001 Share Option Scheme") which was terminated by an ordinary resolution of its shareholders at the annual general meeting held on 6 June 2002 but the subsisting options granted thereunder prior to the termination remained valid and exercisable in accordance with the terms of the 2001 Share Option Scheme.

On 6 June 2002, a new share option scheme (the "2002 Share Option Scheme") was approved by the shareholders of the Company. Under the terms of the 2002 Share Option Scheme, the board of directors of the Company may, at its absolute discretion, offer options to any employee (full-time and part-time), director, supplier, consultant or advisor of any member of the Group to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

The purposes of the 2002 Share Option Scheme are to attract and retain the best available personnel, to provide additional incentives to eligible participants and to promote the success of the business of the Company and its subsidiaries.

The maximum number of shares which may be issued under the 2002 Share Option Scheme must not (when aggregate with any shares to be issued under any other share option schemes of the Company) exceed 10% of the shares in issue at the date of adoption of the 2002 Share Option Scheme.

The maximum number of shares issuable upon the exercise of the share options granted to each eligible participant of the 2002 Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company with such grantee and his associate(s) abstaining from voting.

The exercise period of the share options is determined by the board of directors of the Company and shall end on a date which is not later than 10 years from the date of grant of the options. There is no specific requirement under the 2002 Share Option Scheme that an option must be held for any minimum period before it can be exercised, but its terms provide that the board of directors of the Company has the discretion to impose a minimum period at the time of offer of any particular option. The offer of a grant of share options may be accepted within 14 days from the date of the offer, with the payment of a nominal consideration of HK$1 in total by the offeree.

The exercise price in respect of any particular option of the 2002 Share Option Scheme may be determined by the board of directors of the Company in its absolute discretion and notified to each offeree but may not be less than the highest of (i) the closing price of the Company's shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets on the date of offer, which must be a business day; (ii) the average closing price of the Company's shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares on the date of offer.

The 2002 Share Option Scheme is valid during the period of 10 years commencing 6 June 2002, unless otherwise cancelled or amended.

22. SHARE OPTION SCHEMES - *continued*

No share options have been granted under the 2002 Share Option Scheme since its adoption.

A summary of the movements of the outstanding share options during the year ended 31 March 2006 is as follows:

					Number of share options *(note ii)*		
Grantee	**Share option scheme**	**Date of grant**	**Exercise period**	**Exercise price** HK$ *(note ii)*	**At 1 April 2005**	**Lapsed during the year**	**At 31 March 2006**
Former employee	2001	31 August 2001	31 August 2001 to 30 August 2011 *(note i)*	1.792	5,625,000	(5,625,000)	—

Notes:

(i) Half of the share options were exercisable from the date of grant and the remaining half became exercisable after 6 months from the date of grant and the vesting period thereof was the period from the date of grant to six months after the date of grant.

(ii) The number and exercise price of the share options were not adjusted to reflect the share consolidation in September 2005.

No share options were granted, exercised or cancelled during the years ended 31 March 2007 and 31 March 2006.

23. DEFERRED TAXATION

At 31 March 2007, deductible temporary difference in respect of tax losses not recognised in the financial statements were approximately HK$22,915,000 (2006: HK$16,625,000). No deferred tax asset has been recognised in respect of such deductible temporary difference due to the unpredictability of future profit streams. Included in the above are tax losses of approximately HK$4,691,000 (2006: HK$3,483,000), which can only be carried forward for a maximum period of five years. Other losses may be carried forward indefinitely.

24. CAPITAL COMMITMENTS

	2007 HK$'000	2006 HK$'000
Capital expenditure contracted but not provided for in the financial statements in respect of:		
- acquisition of property, plant and equipment	**80,104**	5,903
- capital injection for interests in a jointly controlled entity and a non wholly-owned subsidiary	**—**	20,904
	80,104	26,807
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**347,771**	466,733

25. OPERATING LEASE ARRANGEMENTS

	2007 HK$'000	2006 HK$'000
Minimum lease payments recognised in the consolidated income statement during the year	**1,472**	1,596

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

	2007 HK$'000	2006 HK$'000
Within one year	**1,442**	1,301
In the second to fifth year inclusive	**4,926**	5,648
Over five years	**1,396**	1,871
	7,764	8,820

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for lease terms ranging from two to eleven years.

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

26. RETIREMENT BENEFITS SCHEMES

The Group operates defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Prior to the MPF Scheme becoming effective, the Group operates a defined contribution retirement benefits scheme (the "ORSO Scheme") under the Occupational Retirement Schemes Ordinance, for those employees who were eligible to participate. The ORSO Scheme operates in a similar way to the MPF Scheme, except that when an employee leaves the ORSO Scheme before his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited contributions. With effect from 1 December 2000, the Group operates both schemes and those employees who are not eligible to participate in the ORSO Scheme are eligible to participate in the MPF Scheme.

The assets of both schemes are held separately from those of the Group in independently administered funds.

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

There were no forfeited contributions utilised to offset employers' contributions for the year. The employers' contributions which have been dealt with in the consolidated income statement of the Group were as follows:

	2007	2006
	HK$'000	HK$'000
Employers' contributions charged to the consolidated income statement	**143**	90

At the balance sheet date, there was no forfeited contributions available to reduce the contributions payable in the future years.

27. SIGNIFICANT EVENTS

Reference is made to the announcements issued by Easyknit International dated 1 February 2007 and 6 February 2007, the announcements issued by the Company dated 30 November 2006, 1 February 2007 and 6 February 2007, and the joint announcement issued by Easyknit International and the Company dated 30 March 2007 (the "Announcements").

The Company has entered into a non-binding letter of intent subject to contract which may or may not lead to a possible merger (the "Possible Merger") on 29 November 2006. The counter party to the letter of intent is Wits Basin Precious Minerals Inc. ("Wits Basin"), a company incorporated in Minnesota, the United States of America whose principal business is the exploration and development of minerals in Mexico, Colorado and South Africa.

The Company and Wits Basin entered into a non-binding heads of agreement on 2 February 2007 in respect of the Possible Merger (the "First Heads of Agreement"). Under the terms of the First Heads of Agreement, it is intended that the Possible Merger may involve an issue of approximately 3 billion shares by the Company to the shareholders of Wits Basin in consideration of the transfer of all their shares in Wits Basin to a wholly-owned subsidiary to be incorporated by the Company. If this happens, the shareholding of Easyknit International may be diluted from approximately 35.93% to approximately 20% and the Company will seek shareholders' approval for the issue of the consideration shares.

On 30 March 2007, the Company entered into a non-binding heads of agreement with Wits Basin (the "Second Heads of Agreement") to amend the First Heads of Agreement, in which the parties set forth their desire to enter into a definitive merger agreement and related documents for the Possible Merger (the "Definitive Agreements") by 31 March 2007, for an extension of time to enter into the Definitive Agreements.

28. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share capital/ paid-up registered capital/ stated capital	Proportion of nominal value of issued share capital/paid-up registered capital/ stated capital held by the Company		Principal activities
			Directly	Indirectly	
Easyknit (Mauritius) Limited	Republic of Mauritius/ Hong Kong	Stated US$1	100%	—	Investment holding
Po Cheong International Enterprises Limited	Hong Kong	Ordinary HK$90	—	100%	Investment holding
Tat Cheong International (HK) Limited	Hong Kong	Ordinary HK$2	—	100%	Investment holding
東莞永耀漂染有限公司 ("Wing Yiu")*	People's Republic of China ("PRC")	Registered HK$11,260,000	—	100%	Bleaching and dyeing
永義紡織（河源）有限公司 ("He Yuan")**	PRC	Registered US$1,000,000	—	100%	Knitting
永義製衣（湖洲）有限公司 ("Huzhou Garment")***	PRC	Registered US$7,004,237	—	100%	Garment manufacturing
永義紡織（湖洲）有限公司 ("Huzhou Knitting")****	PRC	Registered US$2,711,921	—	100%	Knitting
永義漂染（湖洲）有限公司 ("Huzhou Bleaching and Dyeing")*****	PRC	Registered US$3,009,110	—	100%	Bleaching and dyeing

Notes:

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

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

*** Huzhou Garment is a wholly foreign owned enterprise established in the PRC, to be operated for 50 years up to 14 December 2054.

**** Huzhou Knitting is a wholly foreign owned enterprise established in the PRC, to be operated for 50 years up to 5 January 2055.

***** Huzhou Bleaching and Dyeing is a wholly foreign owned enterprise established in the PRC, to be operated for 50 years up to 4 January 2055.

28. PARTICULARS OF PRINCIPAL SUBSIDIARIES - *continued*

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

None of the subsidiaries had issued any debt securities at 31 March 2007.