VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

冠 華 國 際 控 股 有 限 公 司

We fulfil your needs

ANNUAL REPORT 2007 年報

(Stock Code 股份代號:539)

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CORPORATE INFORMATION

Board of Directors

Executive

Li Ming Hung *(Chairman)*
Chen Tien Tui *(Chief Executive Officer)*
So Kam Wah
Lee Yuen Chiu, Andy
Choi Lin Hung

Independent Non-Executive

Kan Ka Hon
Phaisalakani Vichai (Andy Hung)
Kwok Sze Chi

Company Secretary

Lee Chung Shing

Legal Advisers

Chiu & Partners

Auditors

Deloitte Touche Tohmatsu

Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of America, N.A.
Sumitomo Mitsui Banking Corporation
United Overseas Bank Limited
Agricultural Bank of China
CITIC Ka Wah Bank Limited
Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Scotiabank (Hong Kong) Limited
Mizuho Corporate Bank, Ltd
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
HSH Nordbank AG
Banco Bilbao Vizcaya Argentaria, S.A.
BNP Paribas
Industrial and Commercial Bank of China (Asia) Limited
Wing Hang Bank, Limited
Banca di Roma SpA
The Bank of East Asia, Limited
Citibank, N.A.
Wells Fargo Bank, N.A.
Standard Chartered Bank (Hong Kong) Limited

Principal Share Registrars

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Branch Share Registrars in Hong Kong

Secretaries Limited
(to be renamed as Tricor Secretaries Limited with effect from 1 August 2007)
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

Unit D, 3rd Floor
Winfield Industrial Building
3 Kin Kwan Street
Tuen Mun
New Territories
Hong Kong

Company Website

www.victorycity.com.hk

FINANCIAL HIGHLIGHTS AND SUMMARY

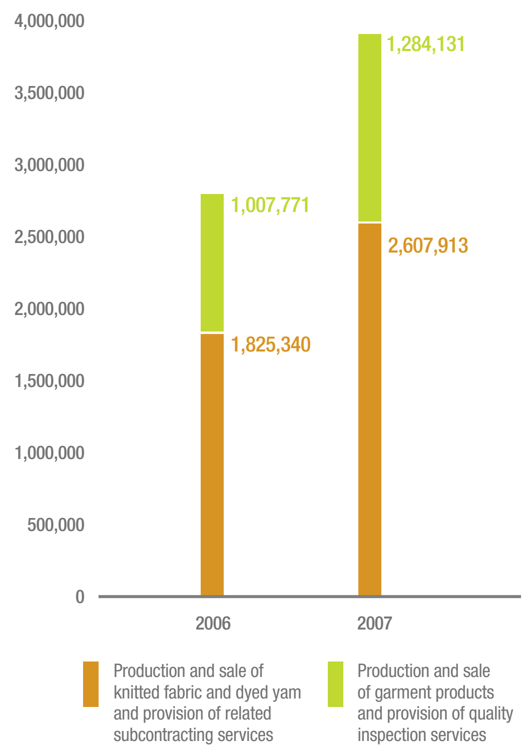
RESULTS

	Year ended 31 March				
	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007 HK$'000**
Revenue	1,249,029	1,714,821	2,403,384	2,833,111	**3,892,044**
Profit before taxation	118,383	183,614	235,669	301,659	**370,757**
Income tax expense	(11,761)	(11,607)	(15,657)	(27,941)	**(25,967)**
Profit for the year	106,622	172,007	220,012	273,718	**344,790**
Attributable to:					
Equity holders of the Company	92,268	153,290	202,655	250,269	**305,501**
Minority shareholders	14,354	18,717	17,357	23,449	**39,289**
	106,622	172,007	220,012	273,718	**344,790**
Distributions	32,826	47,794	62,132	75,947	**91,951**

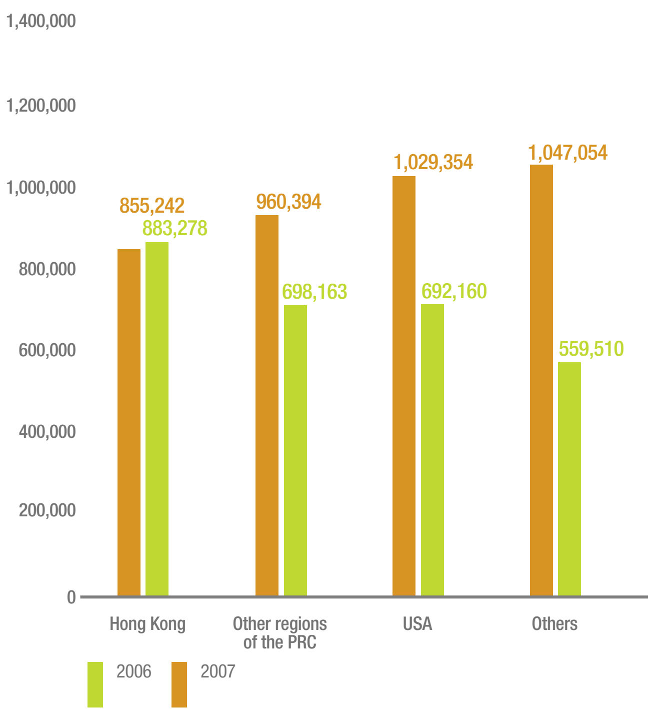
ASSETS AND LIABILITIES

	At 31 March				
	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007 HK$'000**
Total assets	1,043,507	1,968,941	2,583,256	3,638,188	**4,655,392**
Total liabilities	(457,914)	(1,047,894)	(1,474,583)	(2,035,501)	**(2,642,602)**
	585,593	921,047	1,108,673	1,602,687	**2,012,790**
Equity attributable to:					
Equity holders of the Company	570,132	896,669	1,071,103	1,547,162	**1,922,412**
Minority shareholders	15,461	24,378	37,570	55,525	**90,378**
	585,593	921,047	1,108,673	1,602,687	**2,012,790**

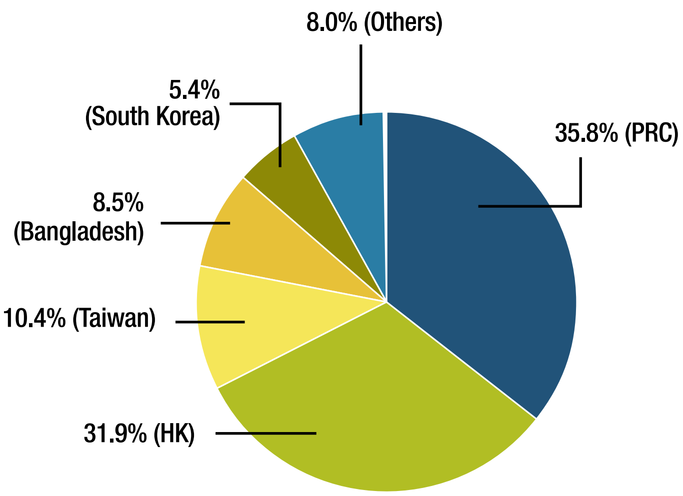
REVENUE BY BUSINESS SEGMENTS



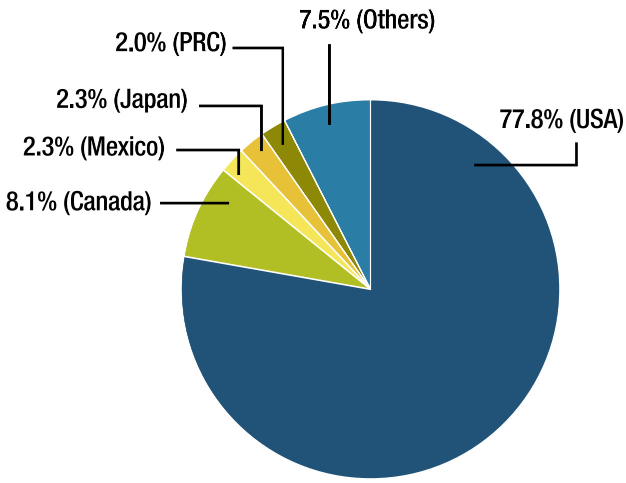
REVENUE BY GEOGRAPHICAL SEGMENTS



PRODUCTION AND SALE OF KNITTED FABRIC AND DYED YARN AND PROVISION OF RELATED SUBCONTRACTING SERVICES



PRODUCTION AND SALE OF GARMENT PRODUCTS AND PROVISION OF QUALITY INSPECTION SERVICES



CHAIRMAN'S STATEMENT

As one of the leaders in the textile and garment industry, the Group has achieved outstanding performance based on our strength, experience and foresight.

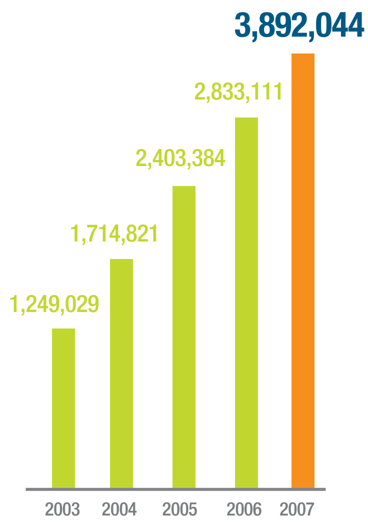
On behalf of the Board of Directors of Victory City International Holdings Limited (the "Company") and its subsidiary companies (the "Group"), I am pleased to announce our accomplishments to our shareholders for the year ended 31 March 2007, being another year of continual success.

DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of HK6.8 cents per share (each a "Share") of HK$0.01 each of the Company in respect of the year ended 31 March 2007 to shareholders whose names appear on the register of members of the Company on 30 August 2007 and also to recommend the offer to the shareholders the right to elect as an alternative, to receive such final dividend wholly or partly by allotment of new Shares credited as fully paid in lieu of cash (the "Scrip Dividend Scheme"), subject to the approval of the shareholders on the payment of final dividend at the annual general meeting

+37%

REVENUE (HK$'000)



of the Company and the granting by The Stock Exchange of Hong Kong Limited of the listing of, and permission to deal in, the Shares to be issued pursuant thereto.

The Shares to be issued pursuant to the Scrip Dividend Scheme will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of such Shares save that they will not be entitled to the final dividend for the year ended 31 March 2007.

On condition that the payment of the above final dividend is approved by the shareholders at the annual general meeting of the Company, a circular containing details of the Scrip Dividend Scheme will be despatched to the shareholders of the Company shortly after the annual general meeting of the Company.

BUSINESS REVIEW

With the consolidated efforts of all concerned, we report 2006/07 as another fruitful year, with total revenue and net profit both achieved a consecutive ninth year record high in the history of the Group. As one of the leaders in the textile and garment industry, the Group has achieved outstanding performance based on our strength, experience and foresight.

For the year ended 31 March 2007, the Group's total revenue rose substantially to HK$3.9 billion, signifying an increase of 37.4% as compared with the previous year. Gross profit strengthened to HK$747.4 million whereas net profit attributable to equity holders of the Company surged to HK$305.5 million, exhibited a 22.1% growth. Basic earnings per share was 47.1 cents, compared to 43.4 cents in 2006.

The past year was full of changes and challenges and the business environment experienced an increase in competition and higher expectation from customers. We face these challenges by pro-actively managing every aspect of our business including enhancement of production capacity by acquisition and upgrading of machinery, strengthened marketing teams and continued improvements in efficiency, productivity, quality and turnaround time. While planning for the future and ensuring adequate finance for our corporate development, we never lose focus on cost reduction exercises in all areas.

We attribute our encouraging results to a series of well-elaborated strategies over the years which emphasized integrated growth of our core businesses, and at the same time sought opportunities complementary to our goals. The Group has become a vertically integrated enterprise, from the operation of yarn dyeing, knitted fabric manufacturing to garment sourcing, manufacturing and exporting, providing fully comprehensive services to our customers. Such synergistic infrastructure in the textile and garment industry enables us to execute at consistently high levels across all facets of our business.

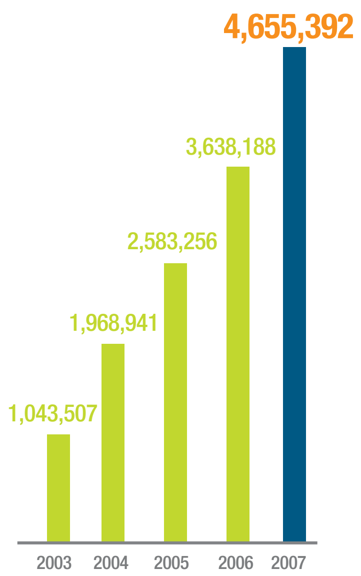
Production and sale of knitted fabric and dyed yarn remained as the principal operation of the Group and accounted for 67% of the consolidated revenue. Revenue of this segment reached HK$2.6 billion, representing an increase of 43% as compared with the previous year. The upsurge was mainly attributable to our enhancement of monthly production capability of knitted fabric from 12 million pounds to 15 million pounds since September 2006. Improvements in production efficiency and product quality were achieved through our investment in the up-to-date model of machineries.

In addition, the stringent environmental protection measures and rising operating costs exerted pressures on small players. The expedited consolidation of the fabric industry has enabled us to increase our market share. Together with the dedicated effort of the marketing teams in exploring new markets and developing new customers, both revenue and net profit were increased for the year under review.

The PRC authorities have enforced more stringent measures on environmental protection. Our Xinhui production facilities are well-equipped with sufficient and up-to-standard effluent discharge facilities for our manufacturing operations. Anticipating the further tightening of the PRC environmental protection measures and to cater for our future capacity expansion, the Group has invested over HK$150 million to enhance and upscale the existing effluent discharge facilities by the installation of new wastewater recycle system and effluent treatment plant during the second half of the financial year. All the new facilities have been properly installed and the volume of effluent discharge of our Xinhui factories has been significantly reduced.

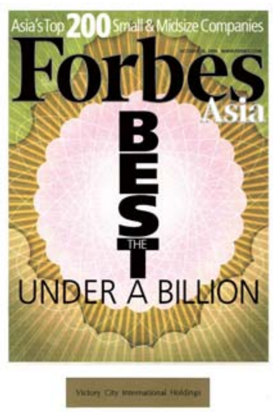
The garment segment continued to demonstrate satisfactory performance

TOTAL ASSETS (HK$'000)



+28%

during the year under review by achieving a 27% growth in revenue to HK$1.3 billion, accounted for 33% of the consolidated revenue. The diversified global sourcing network together with our self-owned garment manufacturing facilities in Jordan, Indonesia and the PRC enabled the Group to provide comprehensive services to our customers through flexible and efficient production plans as well as diversified product ranges. Since the fourth quarter of the year under review, the monthly production capacity of each of our Indonesia and PRC garment factory was enhanced in order to cope with the growing demand of our garment products. Despite keen competition, the garment segment once again contributed to our revenue and profit growth.



In October 2006, our Company was named by Forbes Asia as one of the "Best 200 Under a Billion" companies of 2006. The award was a recognition of the accomplishments of the Group and the efforts and capabilities of the management over the past years. It was also a driving force for the management to achieve higher returns for our shareholders.

In February 2007, the Group successfully secured a 5-year syndicated loan of HK$1,388 million from 25 banks, bearing a competitive interest margin of HIBOR + 0.50% per annum. The proceeds of the loan facility had been used to refinance the HK$688 million syndicated loan raised in December 2004 and the balance for our capital expansion and general working capital. With the loan in place, we are confident of meeting our business objectives and effectively planning for our future.

OUTLOOK

Even in light of all the success that was achieved in the past, we are not resting on previous achievements. In the years to come, the Group will dedicate its efforts to maintain its leading role in the textile and garment industry. Measures and endeavour will also be made to fine-tune the Group's business portfolio and to explore larger market share both domestically and internationally with a view to improving our competitive edges and profitability.

To cope with the increasing demand of our knitted fabric from both the export and domestic markets, a new knitting factory is under construction within our Xinhui production base. Upon completion and installation of new advanced knitting machines, our monthly knitting capacity will be enhanced by 50%. It is anticipated that the production efficiency as well as the product quality will be further improved. Moreover, as a result of the faster industry consolidation, we expect to have greater pricing power which will improve the operating margin in the coming years.

The existing trade agreements between the PRC and European countries and United States will expire by the end of 2007 and 2008 respectively. Even though there may still be possibilities of other policies that may restrict the export of the PRC textile products, our enhanced and diversified garment manufacturing facilities are well-prepared to capture the rising business opportunities. We are confident that the garment segment, with the strong backup from our vertically integrated set-up, will maintain its growth momentum in the coming years.

In line with our corporate expansion, we continue to place priority on staff and organization development. There will be continual talent recruitment and in-house training programmes for our staff. Technical and inter-company posting will be arranged to enrich the professional knowledge of our dedicated employees. In addition, particular emphasis will be placed on further enhancing functions such as management information systems, risk management and corporate governance.

While the year ahead will remain highly competitive, the Group will continue to redefine and enhance our business model to create the best platform for the future growth of our core businesses as well as to capitalize on any value-enhancing investment opportunities. We believe that our strong foundation together with the committed focus of our management team, the Group is well-positioned to face all challenges ahead and to bring the most satisfactory returns to our shareholders.

APPRECIATION

Finally, on behalf of the Board, I would like to express my heartfelt thanks to the hard work of our management and all staff during the year. I convey also our cordial thanks to all our customers, suppliers, bankers, business partners and shareholders for your continual support and confidence in the Group.

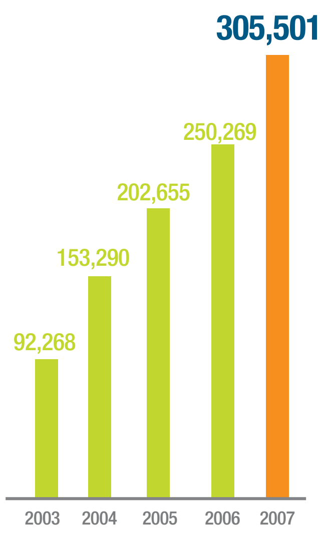
Li Ming Hung
Chairman
Hong Kong
20 July 2007

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's revenue for the year ended 31 March 2007 increased by 37% from HK$2.8 billion to HK$3.9 billion

+22%

PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (HK$'000)



FINANCIAL REVIEW

The Group's revenue for the year ended 31 March 2007 increased by 37% from HK$2.8 billion to HK$3.9 billion. Revenue of production and sale of knitted fabric and dyed yarn increased by 43% to HK$2.6 billion, representing 67% of the consolidated revenue whereas revenue of garment sourcing, manufacturing and exporting business surged to HK1.3 billion, signifying a 27% growth as compared with last year and representing 33% of the consolidated revenue.

The increase in revenue was mainly attributable to the enhancement of monthly production capability of knitted fabric from 12 million pounds to 15 million pounds since September 2006. In addition, full-scale operation of the Jordan, Indonesia and Xinhui garment manufacturing factories together with the hard work of the market teams in developing new customers also contributed to the revenue growth.

Gross profit margin for production and sale of knitted fabric and dyed yarn dropped from 24.4% to 21.7% in the year under review. Cotton price remained reasonably steady throughout the year whereas various operating costs such as dyestuff and chemicals, spandex, coal and wages increased rapidly. Furthermore, the running costs of the new wastewater recycle system and wastewater treatment plant also led to increase in operating costs.

Other income increased from HK$31.1 million in 2006 to HK$45.6 million in 2007. This was mainly contributed by the charge in fair value of derivative financial instruments of HK$4.3 million, additional rental income of HK$3.0 million and sample sales of HK$5.4 million.

Administrative expenses rose substantially from HK$179.3 million in 2006 to HK$241.2 million in 2007, mainly due to the increase in total number of employees of the Group, from 7,500 in 2006 to 10,470 in 2007.

Finance costs increased from HK$36.1 million in 2006 to HK$63.0 million in 2007, mainly as a result of the rise in global interest rate and increased bank borrowings of the Group. The Group

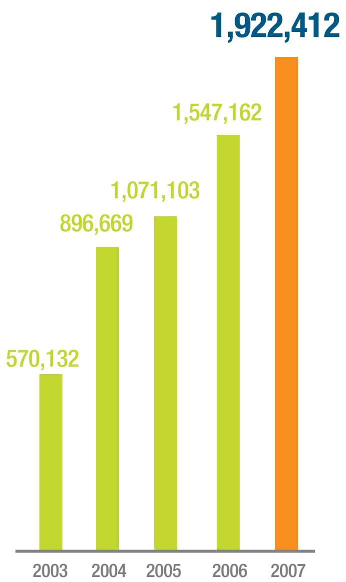
has tried its best endeavour in obtaining favourable banking facilities with its bankers so as to reduce its finance costs.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2007, the Group had total assets of HK$4,655,392,000 (2006: HK$3,638,188,000) which were financed by current liabilities of HK$1,503,120,000 (2006: HK$1,425,159,000), long term liabilities of HK$1,139,482,000 (2006: HK$610,342,000) and shareholders' equity of HK$1,922,412,000 (2006: HK$1,547,162,000). The current ratio was approximately 1.7 (2006: 1.5) and

+24%

EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (HK$'000)



the gearing ratio, being the ratio of total borrowings (excluding bills discounted and debts factored, and net of bank balances and cash) to shareholders funds was 80% (2006: 57%). All of the Group's borrowings were at floating rate basis.

The Group services its debts primarily through cash earned from its operations. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion. Should other opportunities arise requiring additional funding, the Directors believe that the Group is in a good position to obtain financing on favourable terms.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars.

Renminbi appreciated against other currencies continuously during the year under review. The management closely monitors the foreign exchange movement and determines the appropriate hedging activities when necessary.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK$552 million in fixed assets, of which 22% was used for purchase of plant and machinery, 32% for construction of new wastewater recycle system and new effluent discharge system and 34% for acquisition of property and construction of new factory plants.

As at 31 March 2007, the Group had capital commitments of approximately HK$54 million in respect of acquisition of new machinery and construction of new factory plants, which are financed by long-term bank borrowings.

CHARGES ON ASSETS

As at 31 March 2007, investment properties and certain property, equipment, plant and machinery of the Group with net book value of approximately HK$173 million were pledged to banks to secure banking facilities granted.

EMPLOYEE INFORMATION

As at 31 March 2007, total number of employees of the Group were approximately 250 in Hong Kong and Macau (2006: 290), approximately 10 (2006: 10) in the United States and Canada, approximately 1,200 in Jordan (2006: 1,200), approximately 1,150 in Indonesia (2006: 700) and approximately 7,860 in the People's Republic of China (2006: 5,300). Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on individuals' merits as well as the results of the Group. Other benefits to the staff include a provident fund scheme as well as medical insurance.

The Company maintains a share option scheme, pursuant to which share options are granted to selected eligible executives, with a view to provide senior management an appropriate incentive interest for the growth of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for 26.5% of the total revenue for the year and sales to the largest customer included therein accounted for 15.1%.

Purchase from the five largest suppliers accounted for 22.1% of the total purchases for the year and purchase from the largest supplier included therein accounted for 5.3%.

None of the Directors, their respective associates (as defined in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) or shareholders of the Company who own more than five percent of the issued share capital of the Company has any interest in the Group's five largest customers during the year under review.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Ming Hung, aged 56, is the Chairman of the Company and a co-founder of the Group. He has over 30 years experience in the textile industry and is responsible for the overall strategic planning of the corporate as well as business development of the Group.

Mr. Chen Tien Tui, aged 58, is the Chief Executive Officer of the Company and a co-founder of the Group. He has over 28 years experience in the textile industry and is responsible for the day-to-day operation in respect of production, sales and marketing of the Group.

Mr. So Kam Wah, aged 47, is an Executive Director and the head of manufacturing operation of Xinhui Victory City Co., Ltd. He has over 24 years experience in the textile industry and is responsible for the overall manufacturing operation of the Xinhui factory. Mr. So joined the Group in 1983.

Mr. Lee Yuen Chiu, Andy, aged 42, is an Executive Director. He has over 21 years experience in the textile industry and is responsible for the overall management of the sales and production of the Group. Mr. Lee joined the Group in 1997.

Mr. Choi Lin Hung, aged 45, is an Executive Director. He holds a Master in Business Administration and is responsible for the strategic planning and corporate development of the Group. Prior to joining the Group in 2001, Mr. Choi has over 9 years banking experience and 6 years management experience in garment and textile industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kan Ka Hon, aged 56, graduated from The University of Hong Kong and is a qualified accountant. He is the Executive Director and Company Secretary of each of Chevalier International Holdings Limited and Chevalier Pacific Holdings Limited (formerly known as Chevalier i-Tech Holdings Limited) which are also companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Kan has extensive experience in corporate finance, treasury and accounting and has over 27 years experience at management level in listed companies. He is also a Non-Executive Director of Easyknit Enterprises Holdings Limited (formerly known as Asia Alliance Holdings Limited), which is a company listed on the Stock Exchange.

Mr. Phaisalakani Vichai (Andy Hung), aged 59, is the Executive Director and Chief Financial Officer of Willas-Array Electronics (Holdings) Limited, a company listed on the Singapore Exchange. He graduated from Minnesota State University, USA and is a chartered accountant in Canada. He has worked for an international accounting firm for 11 years and has extensive experience in finance and corporate management with major electronics and garments corporations.

Mr. Kwok Sze Chi, aged 52, currently holds a registered investment adviser licence and is a director of The Institute of Securities Dealers and the deputy chairman of The Hong Kong Institute of Financial Analysts and Professional Commentators. Having served the securities industry for 31 years, Mr Kwok has vast experience in securities and futures investment and operation. Since 1985, Mr Kwok has been invited to appear on television and radio programmes to explain market trends and analyze stock market developments. He also provides professional investment analyses in newspapers and investment websites.

SENIOR MANAGEMENT

Mr. Lee Chung Shing, aged 40, is the Financial Controller and Company Secretary of the Group. He is an associate member of the Chartered Institute of Management Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee joined the Group in 1998 and has over 18 years experience in the accounting and finance sector including an international accounting firm and a company listed on the Stock Exchange.

Profiles of Directors and Senior Management

Mr. Ng Tsze Lun, aged 52, is the Marketing Director of Ford Glory International Limited. Mr. Ng joined the Group in 2001 and has over 31 years experience in garment manufacturing and sourcing areas, he is responsible for oversee the daily operation and marketing of the garment segment.

Mr. Wong Bing Koi, aged 52, is the General Manager of Xinhui Victory City Co., Ltd. He has over 32 years experience in the textile industry and is responsible for the overall management of the Xinhui factory. Mr. Wong joined the Group in 1992.

Mr. Wong Kam Hoi, aged 52, is the head of sales and marketing of the Group. He has over 24 years experience in the textile industry and is responsible for the sales and marketing function of the Group. Mr. Wong joined the Group in 1986.

Mr. Sy Wing Shuen, aged 53, is the Sales Manager of the Group. He has over 32 years experience in the textile industry and is responsible for the sales and marketing function of the Group. Mr. Sy joined the Group in 1999.

Ms. Chan Shuk Fun, aged 41, is the Assistant General Manager of Ford Glory International Limited. She is an associate member of the Hong Kong Institute of Certified Public Accountants since 1993. Prior to joining the Group in 2001, Ms. Chan has over 13 years experience in the accounting, finance and general management functions.

Mr. Chan Ling Kai, aged 34, is the Assistant General Manager of Champion Forturne Asia Limited. Mr. Chan joined the Group in 2003 and is responsible for the sales and marketing function of the yarn dyeing segment. Mr. Chan is the son of Mr. Chen Tien Tui, the Chief Executive Officer of the Company.

Mr. Lau Fat Chuen, aged 51, is the General Manager of Xinhui V-Apparel Co., Ltd. Mr. Lau joined the Group in 2005 and has over 31 years experience in garment manufacturing area. He is responsible for oversee the overall management of the PRC garment factory.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the production and sale of knitted fabric and dyed yarn and garment products.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 49. The directors recommend the payment of a final dividend of HK6.8 cents per share, in cash form with a scrip dividend option to the shareholders whose names appear on the register of members on 30 August 2007 amounting to approximately HK$45,032,000. Details of the dividends for the year are set out in note 10 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a total cost of approximately HK$551,674,000 for the expansion of its business. Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

INVESTMENT PROPERTIES

During the year, the Group acquired investment properties at a total cost of HK$122,342,000 and fair valued all of its investment properties at the year end date. Details of movements in the investment properties of the Group during the year are set out in note 14 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 March 2007, represented by its accumulated profits, dividend reserve and contributed surplus, were approximately HK$299,737,000.

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Li Ming Hung *(Chairman)*

Mr. Chen Tien Tui *(Chief Executive Officer)*

Mr. So Kam Wah

Mr. Lee Yuen Chiu, Andy

Mr. Choi Lin Hung

Independent non-executive directors:

Mr. Kan Ka Hon

Mr. Phaisalakani Vichai (Andy Hung)

Mr. Kwok Sze Chi

In accordance with Clause 87(1) of the Company's Bye-laws, Mr. So Kam Wah, Mr. Lee Yuen Chiu, Andy and Mr. Kan Ka Hon will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other directors continue in office.

No director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which are not determinable by the Group within one year without payment of compensation other than statutory compensation.

The independent non-executive directors have been appointed for a specific term subject to retirement by rotation as required by the Company's Bye-laws.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

Details of the directors' interests in contract and connected transactions for the year are set out in note 33 to the consolidated financial statements.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of its continuing connected transactions (as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules")) as announced by the Company in its announcement dated 9 September 2005 to assist the directors to evaluate whether the transactions:

a. received approval of the Board of Directors;

b. were entered into in accordance with the pricing policies of the Company with reference to similar transactions with independent third parties;

c. were entered into in accordance with the terms of the relevant agreement governing such transactions; and

d. did not exceed the relevant cap amounts as set out in the circular of the Company dated 3 October 2005.

The auditors of the Company have performed procedures in respect of these transactions in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information".

The auditors have reported their factual findings on these procedures to the Board of Directors. The independent non-executive directors of the Company have reviewed the transactions and the findings and confirmed that the transactions were:

a. in the ordinary and usual course of business of the Group;

b. on normal commercial terms; and

c. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors independent.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SHARES AND UNDERLYING SHARES

As at 31 March 2007, the interests and short positions of the directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares *(Note 1)*	Interest in underlying shares of share options *(Note 1)*	% of the relevant class of issued share capital of the Company/ associated corporation
Li Ming Hung	The Company	Founder of a trust	99,854,000 ordinary shares of HK$0.01 each of the Company ("Shares") (L) *(Note 2)*	–	15.1%
	The Company	Beneficial owner	9,160,000 Shares (L)	–	1.4%
	The Company	Beneficial owner	–	1,500,000 Shares (L) *(Note 4)*	0.2%

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares *(Note 1)*	Interest in underlying shares of share options *(Note 1)*	% of the relevant class of issued share capital of the Company/ associated corporation
	Victory City Company Limited *(Note 15)*	Beneficial owner	4,000,000 non-voting deferred shares of HK$1.00 each (L)	–	50%
	Victory City Overseas Limited *(Note 15)*	Beneficial owner	1,300 redeemable non-voting preference shares of US$1.00 each (L)	–	39.4%
Chen Tien Tui	The Company	Founder of a trust	99,854,000 Shares (L) *(Note 3)*	–	15.1%
	The Company	Beneficial owner	9,808,000 Shares (L)	–	1.5%
	The Company	Beneficial owner	–	1,500,000 Shares (L) *(Note 4)*	0.2%

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares *(Note 1)*	Interest in underlying shares of share options *(Note 1)*	% of the relevant class of issued share capital of the Company/ associated corporation
	Victory City Company Limited *(Note 15)*	Beneficial owner	4,000,000 non-voting deferred shares of HK$1.00 each (L)	–	50%
	Victory City Overseas Limited *(Note 15)*	Beneficial owner	1,300 redeemable non-voting preference shares of US$1.00 each (L)	–	39.4%
Choi Lin Hung	The Company	Beneficial owner	2,990,000 Shares (L)	–	0.5%
	The Company	Beneficial owner	–	9,000,000 Shares (L) *(Note 5)*	1.4%
	Victory City Overseas Limited *(Note 15)*	Beneficial owner	700 redeemable non-voting preference shares of US$1.00 each (L)	–	21.2%

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares *(Note 1)*	Interest in underlying shares of share options *(Note 1)*	% of the relevant class of issued share capital of the Company/ associated corporation
	Ford Glory Holdings Limited *(Note 15)*	Interest of controlled corporation	49 shares of US$1.00 each (L) *(Note 6)*	–	49%
	CSG Apparel Inc. *(Note 15)*	Interest of controlled corporation	One common stock of CAD1.00 (L) *(Note 7)*	–	100%
	Ford Glory International Limited *(Note 15)*	Interest of controlled corporation	5,000,000 ordinary shares of HK$1.00 each (L) *(Note 13)*	–	100%
	Glory Time Limited *(Note 15)*	Interest of controlled corporation	70 ordinary shares of HK$1.00 each (L) *(Note 10)*	–	70%
	Mayer Apparel Limited *(Note 15)*	Interest of controlled corporation	51 ordinary shares of HK$1.00 each (L) *(Note 11)*	–	51%

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares *(Note 1)*	Interest in underlying shares of share options *(Note 1)*	% of the relevant class of issued share capital of the Company/ associated corporation
	PT Victory Apparel Samarang *(Note 15)*	Interest of controlled corporation	300,000 ordinary shares of US$1.00 each (L) *(Note 9)*	–	100%
	Silver Success Limited *(Note 15)*	Interest of controlled corporation	90 ordinary shares of HK$1.00 each (L) *(Note 10)*	–	90%
	Surefaith Limited *(Note 15)*	Interest of controlled corporation	10 ordinary shares of US$1.00 each (L) *(Note 13)*	–	100%
	Top Star Limited *(Note 15)*	Interest of controlled corporation	2 ordinary shares of HK$1.00 each (L) *(Note 13)*	–	100%
	Top Value Inc. *(Note 15)*	Interest of controlled corporation	200 common shares of no par value (L) *(Note 12)*	–	100%

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares *(Note 1)*	Interest in underlying shares of share options *(Note 1)*	% of the relevant class of issued share capital of the Company/ associated corporation
	Value Plus (Macao Commercial Offshore) Limited *(Note 15)*	Interest of controlled corporation	Quota capital of MOP100,000 (L) *(Note 14)*	–	100%
	Victory Apparel Jordan Manufacturing Limited *(Note 15)*	Interest of controlled corporation	50,000 ordinary shares of JD$1.00 each (L) *(Note 8)*	–	100%
	Wealth Choice Limited *(Note 15)*	Interest of controlled corporation	10 ordinary shares of US$1.00 each (L) *(Note 13)*	–	100%
	福之源貿易(上海)有限公司 *(Note 15)*	Interest of controlled corporation	Registered capital of RMB1,000,000 (L) *(Note 7)*	–	100%
	Gojifashion Inc. *(Note 16)*	Interest of controlled corporation	100 common shares of no par value (L) *(Note 12)*	–	50%

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares *(Note 1)*	Interest in underlying shares of share options *(Note 1)*	% of the relevant class of issued share capital of the Company/ associated corporation
Lee Yuen Chiu, Andy	The Company	Beneficial owner	–	9,000,000 Shares (L) *(Note 5)*	1.4%
So Kam Wah	The Company	Beneficial owner	–	9,000,000 Shares (L) *(Note 5)*	1.4%
Phaisalakani Vichai	The Company	Beneficial owner	208,000 Shares (L)	–	0.03%

Notes:

1. The letter "L" represents the director's interests in the shares and underlying shares of the Company or its associated corporations.

2. These Shares were held by Pearl Garden Pacific Limited. Pearl Garden Pacific Limited is wholly owned by Cornice Worldwide Limited, the entire issued share capital of which is held by Trustcorp Limited as discretionary trustee for Mr. Li Ming Hung's family.

3. These Shares were held by Madian Star Limited. Madian Star Limited is wholly owned by Yonice Limited, the entire issued share capital of which is held by Trustcorp Limited as discretionary trustee for Mr. Chen Tien Tui's family.

4. On 9 October 2003, each of Messrs. Li Ming Hung and Chen Tien Tui were granted 500,000 options under the option scheme of the Company to subscribe for 500,000 Shares, exercisable at a price of HK$3.04 per share during a period from 9 October 2004 to 29 November 2011.

   On 7 June 2004, Li Ming Hung and Chen Tien Tui were granted options under the share option scheme of the Company to subscribe for 1,000,000 Shares and 1,000,000 Shares respectively, exercisable at a price of HK$3.15 per Share during a period from 7 June 2004 to 29 November 2011.

5. On 23 May 2003, Messrs. Choi Lin Hung, Lee Yuen Chiu, Andy and So Kam Wah were granted 1,500,000, 1,500,000 and 3,300,000 options respectively under the share option scheme of the Company to subscribe for 1,500,000 shares, 1,500,000 Shares and 3,300,000 Shares respectively, exercisable at a price of HK$2.35 per Share during a period from 27 May 2003 to 29 November 2011.

   On 9 October 2003, Messrs. Choi Lin Hung, Lee Yuen Chiu, Andy and So Kam Wah were granted options under the share option scheme of the Company to subscribe for 3,500,000 shares, 3,500,000 shares and 1,700,000 shares, respectively, exercisable at a price of HK$3.04 per share during a period from 9 October 2004 to 29 November 2011.

   On 7 June 2004, Choi Lin Hung, Lee Yuen Chiu, Andy and So Kam Wah were granted options under the share option scheme of the Company to subscribe for 4,000,000 Shares, 4,000,000 Shares and 4,000,000 Shares respectively, exercisable at a price of HK$3.15 per Share during a period from 7 June 2004 to 29 November 2011.

6. These shares, representing 49% of the issued share capital of Ford Glory Holdings Limited, were held by Merlotte Enterprise Limited which is wholly owned by Mr. Choi Lin Hung.

7. This common stock or, as the case may be, registered capital was beneficially owned by Ford Glory International Limited which is a wholly owned subsidiary of Ford Glory Holdings Limited.

8. These shares were beneficially owned by Wealth Choice Limited which is a wholly owned subsidiary of Ford Glory Holdings Limited.

9. These shares were beneficially owned by Surefaith Limited which is a wholly owned subsidiary of Ford Glory Holdings Limited.

10. Silver Success Limited is 90% owned by Glory Time Limited which is in turn 70% owned by Ford Glory Holdings Limited.

11. Mayer Apparel Limited is 51% owned by Ford Glory Holdings Limited.

12. These common shares were beneficially owned by Ford Glory Holdings Limited.

13. These shares were beneficially owned by Ford Glory Holdings Limited.

14. This quota capital was beneficially owned by Ford Glory Holdings Limited.

15. These companies are subsidiaries of the Company.

16. This company is an associated corporation (within the meaning of Part XV of the SFO) of the Company.

Save as disclosed above in this report, as at 31 March 2007, none of the directors and chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

DISCLOSEABLE INTEREST UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, according to the register kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiring by the directors, the following persons (other than directors and chief executive of the Company) had an interest or short position in the Shares and/or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of person	Number of Shares *(Note 1)*	Capacity	Approximate percentage of interest
Pearl Garden Pacific Limited	99,854,000 (L)	Beneficial owner *(Note 2)*	15.11%
Cornice Worldwide Limited	99,854,000 (L)	Interest of controlled corporation *(Note 2)*	15.11%
Madian Star Limited	99,854,000 (L)	Beneficial owner *(Note 3)*	15.11%
Yonice Limited	99,854,000 (L)	Interest of controlled corporation *(Note 3)*	15.11%
Trustcorp Limited	199,708,000 (L)	Trustee *(Notes 2, 3 & 4)*	30.22%

Name of person	Number of Shares *(Note 1)*	Capacity	Approximate percentage of interest
Newcorp Limited	199,708,000 (L)	Interest of controlled corporation *(Notes 2, 3 & 4)*	30.22%
Newcorp Holdings Limited	199,708,000 (L)	Interest of controlled corporation *(Notes 2, 3 & 4)*	30.22%
David Henry Christopher Hill	199,708,000 (L)	Interest of controlled corporation *(Notes 2, 3 & 4)*	30.22%
David William Roberts	199,708,000 (L)	Interest of controlled corporation *(Notes 2, 3 & 4)*	30.22%
Rebecca Ann Hill	199,708,000 (L)	Interest of spouse *(Notes 2, 3, 4 & 5)*	30.22%
Ho Yuen Mui, Shirley	110,514,000 (L)	Interest of spouse *(Note 6)*	16.72%
Or Kwai Ying	111,162,000 (L)	Interest of spouse *(Note 7)*	16.82%

Name of person	Number of Shares (Note 1)	Capacity	Approximate percentage of interest
Templeton Asset Management Limited	58,968,228 (L)	Investment manager	8.92%
Sansar Capital Special Opportunity Master Fund, LP	39,162,000 (L)	Investment manager	5.93%

Notes:

1. The letter "L" represents the person's interests in the Shares and underlying Shares.

2. These shares were held by Pearl Garden Pacific Limited. Pearl Garden Pacific Limited is wholly owned by Cornice Worldwide Limited, the entire issued share capital of which is held by Trustcorp Limited as discretionary trustee for Li Ming Hung's family. Mr. Chen Tien Tui is a director of Pearl Garden Pacific Limited and Cornice Worldwide Limited.

3. These shares were held by Madian Star Limited. Madian Star Limited is wholly owned by Yonice Limited, the entire issued share capital of which is held by Trustcorp Limited as discretionary trustee for Chen Tien Tui's family. Mr. Li Ming Hung is a director of Madian Star Limited and Yonice Limited.

4. Trustcorp Limited is wholly owned by Newcorp Limited which is in turn wholly owned by Newcorp Holdings Limited. Newcorp Holdings Limited is owned as to 35% by David Henry Christopher Hill, as to 35% by David William Roberts and as to 30% by Michael J. Kenney-Herbert.

5. Rebecca Ann Hill is the wife of David Henry Christopher Hill.

6. Ho Yuen Mui, Shirley is the wife of Li Ming Hung.

7. Or Kwai Ying is the wife of Chen Tien Tui.

Save as disclosed above, so far as is known to the directors of the Company, as at 31 March 2007, there was no person (other than a director or chief executive of the Company) who had an interest or short position in the Shares and/or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

Details of the Company's share option scheme are set out in note 27 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 27 to the consolidated financial statements.

COMPETING BUSINESS INTERESTS OF DIRECTORS

None of the directors of the Company or their respective associates have any interests in a business which competes or may compete with the business of the Company.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, there is no contract of significance to the business of the Group to which any member of the Group was a party subsisting as at 31 March 2007 in which a director of the Company is or was materially interested, either directly or indirectly.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2007.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Li Ming Hung

Chairman

Hong Kong

20 July 2007

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance and endeavours in following the code provisions ("Code Provisions") of the "Code on Corporate Governance Practices" ("Code") as set out in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Throughout the year ended 31 March 2007, the Company had complied with the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors and senior management of the Group on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules ("Model Code"). Having made specific enquiry of all directors and senior management of the Group, all directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by directors and senior management throughout the year ended 31 March 2007.

BOARD OF DIRECTORS

The Board is currently composed of five executive directors comprising Mr. Li Ming Hung as the chairman, Mr. Chen Tien Tui as the chief executive officer of the Company, Mr. So Kam Wah, Mr. Lee Yuen Chiu, Andy and Mr. Choi Lin Hung; and three independent non-executive directors comprising Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr Kwok Sze Chi. The biographical details of the directors are set out on pages 18 to 20 of the annual report of the Company for the year ended 31 March 2007. All directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws. Each independent non-executive director is appointed for a term of two years.

The Board meets regularly to review and determine the corporate strategies and overall strategic policies. Each of the members of the Board has full access to relevant information at the meetings. During the year, the Board has convened four regular meetings and conducted the following activities at such regular meetings:

(1) approved the interim and final results, interim and annual report, and matters to be considered at annual general meeting;

(2) reviewed and approved corporate strategies of the Group for the financial year ending 31 March 2008; and

(3) reviewed the performance and financial position of the Group.

Apart from the regular board meetings, the Board met on other occasions when a board-level decision on a particular matter was required.

Details of the directors' attendance records at the regular board meetings during the year are as follows:

	Attendance
Executive directors	
Mr. Li Ming Hung *(Chairman)*	3/4
Mr. Chen Tien Tui *(Chief Executive Officer)*	4/4
Mr. So Kam Wah	3/4
Mr. Lee Yuen Chiu, Andy	4/4
Mr. Choi Lin Hung	4/4
Independent non-executive directors	
Mr. Kan Ka Hon	4/4
Mr. Phaisalakani Vichai	4/4
Mr. Kwok Sze Chi	3/4

The executive directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

The roles of the chairman and the chief executive officer are segregated and are not exercised by the same individual.

The Company has received from each of the independent non-executive directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors to be independent.

NOMINATION OF DIRECTORS

The Board has not set up a nomination committee. The nomination of new directors has been delegated to the Chairman and other executive directors. They review regularly the need to appoint additional directors with appropriate professional knowledge and industry experience. The Board will then consider the appointment of the candidates nominated by them as directors of the Company. The Chairman and other executive directors have not held any meeting for this purpose during the year under review as the Company has not appointed any new director during the year under review.

REMUNERATION COMMITTEE

The Remuneration Committee is currently composed of five members, comprising three independent non-executive directors, namely Mr. Kan Ka Hon (Chairman), Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi, and two executive directors, Mr. Li Ming Hung and Mr. Chen Tien Tui. It was established by the Board and its duties are clearly defined in its written terms of reference which have been prepared and adopted according to the Code Provisions.

The Remuneration Committee meets annually to review the remuneration policies and packages for directors and senior management of the Company. No director takes part in any discussions and decisions about his own remuneration. During the year, it had convened one meeting with full attendance by its members and conducted the following activities:

(1) reviewed the remuneration packages for senior management of the Company; and

(2) reviewed the terms of the service contracts of all the executive directors of the Company by reference to their performance.

AUDITORS' REMUNERATION

During the year, the nature of the audit and non-audit services provided by Deloitte Touche Tohmatsu, the auditors of the Company, and the relevant fee paid by the Company for such services are as follows:

Audit services of approximately HK$1,862,000 for the Group;

Non-audit services of approximately HK$613,000 including:

– review of interim results

– taxation services for the Group

– agreed-upon procedures on the Group's continuing connected transaction

– agreed-upon procedures on the Group's annual results announcement

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive directors, namely Mr. Kan Ka Hon (Chairman), Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi. It was established by the Board and its duties are clearly defined in its written terms of reference which have been prepared and adopted according to the Code Provisions.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the annual and interim reports of the Company prior to their approval by the Board, the effectiveness of the external and internal audit and of internal controls and risk evaluation.

During the year, the Audit Committee has convened three meetings and conducted the following activities:

(1) reviewed interim and annual reports of the Company;

(2) reviewed the internal controls and financial matters of the Group in pursuance of the written terms of reference;

(3) reviewed the audit plans and findings of the external auditors of the Company; and

(4) made recommendation to the Board on the re-appointment of the external auditors.

Details of attendance of each member of the Audit Committee during the year are as follows:

	Attendance
Independent non-executive Directors	
Mr. Kan Ka Hon	3/3
Mr. Phaisalakani Vichai	3/3
Mr. Kwok Sze Chi	3/3

There was no disagreement between the Board's and the Audit Committee's view on the selection and appointment of the external auditors.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 31 March 2007, the directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The responsibilities of the external auditors are set out in the Independent Auditors' Report to the shareholders of the Company on pages 46 to 48 of the annual report of the Company.

INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of internal control. During the year, the Board has reviewed the effectiveness of the internal control system of the Group through the Audit Committee. There was no significant incidence of failure in connection with the financial, operational and compliance control during the year.

INDEPENDENT AUDITORS' REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Victory City International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 106, which comprise the consolidated balance sheet as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
20 July 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	NOTES	2007 HK$'000	2006 HK$'000
Revenue	5 & 6	3,892,044	2,833,111
Cost of sales		(3,144,682)	(2,254,661)
Gross profit		747,362	578,450
Other income		45,568	31,080
Selling and distribution costs		(116,937)	(92,431)
Administrative expenses		(241,239)	(179,305)
Share of loss of a jointly controlled entity		(1,002)	–
Finance costs	7	(62,995)	(36,135)
Profit before taxation		370,757	301,659
Income tax expense	8	(25,967)	(27,941)
Profit for the year	9	344,790	273,718
Attributable to:			
Equity holders of the Company		305,501	250,269
Minority shareholders		39,289	23,449
		344,790	273,718
Distributions	10	91,951	75,947
Earnings per share	11		
Basic		47.1 cents	43.4 cents
Diluted		46.8 cents	43.3 cents

CONSOLIDATED BALANCE SHEET

At 31 March 2007

	NOTES	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	12	1,880,762	1,405,800
Prepaid lease payments	13	23,979	22,654
Investment properties	14	233,080	92,870
Goodwill	15	6,185	6,185
Interest in a jointly controlled entity	16	338	–
Deposits paid for acquisition of property, plant and equipment		–	3,398
		2,144,344	1,530,907
Current assets			
Inventories	17	1,218,404	860,729
Trade receivables	18	957,011	706,632
Deposits, prepayments and other receivables		128,751	167,914
Prepaid lease payments	13	670	783
Derivative financial instruments	24	1,649	461
Bank balances and cash	19	204,563	370,762
		2,511,048	2,107,281
Current liabilities			
Trade payables	20	539,794	474,964
Other payables		101,687	71,151
Dividend payable		276	97
Taxation payable		54,023	35,898
Obligations under finance leases			
– amount due within one year	21	–	2,618
Bank borrowings – amount due within one year	22	788,483	837,287
Structured borrowings	23	18,832	–
Derivative financial instruments	24	25	3,144
		1,503,120	1,425,159
Net current assets		1,007,928	682,122
		3,152,272	2,213,029

CONSOLIDATED BALANCE SHEET

At 31 March 2007

	NOTES	2007 HK$'000	2006 HK$'000
Capital and reserves			
Share capital	25	6,609	6,436
Reserves		1,915,803	1,540,726
Equity attributable to equity holders of the Company		1,922,412	1,547,162
Minority interests		90,378	55,525
Total equity		2,012,790	1,602,687
Non-current liabilities			
Bank borrowings – amount due after one year	22	1,055,240	601,191
Structured borrowings	23	75,328	–
Deferred tax liabilities	28	8,914	9,151
		1,139,482	610,342
		3,152,272	2,213,029

The financial statements on pages 49 to 106 were approved and authorised for issue by the Board of Directors on 20 July 2007 and are signed on its behalf by:

Li Ming Hung	**Chen Tien Tui**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007

	Attributable to equity holders of the Company								
	Share capital HK$'000 *(Note 25)*	Share premium HK$'000	Capital reserve HK$'000 *(Note 26)*	Translation reserve HK$'000	Dividend reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
As 1 April 2005	5,673	472,324	76,229	2,856	31,200	482,192	1,070,474	37,570	1,108,044
Exchange difference arising on translation of foreign operations recognised directly in equity	–	–	–	90,675	–	–	90,675	–	90,675
Profit for the year	–	–	–	–	–	250,269	250,269	23,449	273,718
Total recognised income and expense for the year	–	–	–	90,675	–	250,269	340,944	23,449	364,393
Acquisition of a subsidiary	–	–	–	–	–	–	–	4,306	4,306
Issue of shares under scrip dividend scheme for 2005 final and 2006 interim dividend	163	33,780	–	–	(33,943)	–	–	–	–
Placing of new shares	600	175,200	–	–	–	–	175,800	–	175,800
Transaction costs attributable to issue of new shares	–	(5,468)	–	–	–	–	(5,468)	–	(5,468)
Interim dividend proposed	–	–	–	–	37,331	(37,331)	–	–	–
Final dividend proposed *(Note 10)*	–	–	–	–	38,616	(38,616)	–	–	–
Dividends	–	–	–	–	(34,588)	–	(34,588)	–	(34,588)
Dividend paid to minority interests	–	–	–	–	–	–	–	(9,800)	(9,800)
At 31 March 2006	6,436	675,836	76,229	93,531	38,616	656,514	1,547,162	55,525	1,602,687
Exchange difference arising on translation of foreign operations recognised directly in equity	–	–	–	110,149	–	–	110,149	–	110,149
Profit for the year	–	–	–	–	–	305,501	305,501	39,289	344,790
Total recognised income and expense for the year	–	–	–	110,149	–	305,501	415,650	39,289	454,939
Issue of shares under scrip dividend scheme for 2006 final and 2007 interim dividend	173	44,962	–	–	(45,135)	–	–	–	–
Interim dividend proposed	–	–	–	–	46,919	(46,919)	–	–	–
Final dividend proposed *(Note 10)*	–	–	–	–	45,032	(45,032)	–	–	–
Dividends	–	–	–	–	(40,400)	–	(40,400)	–	(40,400)
Dividend paid to minority interests	–	–	–	–	–	–	–	(9,065)	(9,065)
Capital contribution by a minority shareholder	–	–	–	–	–	–	–	4,629	4,629
At 31 March 2007	**6,609**	**720,798**	**76,229**	**203,680**	**45,032**	**870,064**	**1,922,412**	**90,378**	**2,012,790**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

	NOTE	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		370,757	301,659
Adjustments for:			
Depreciation of property, plant and equipment		145,111	98,079
Gain on disposal of property, plant and equipment		(523)	(1,539)
(Gain) loss on fair value changes of derivative financial instruments		(4,307)	2,054
Gain on fair value changes of investment properties		(17,868)	(17,539)
Interest on bank borrowings		62,941	35,884
Interest on obligations under finance leases		54	251
Interest income		(3,000)	(1,940)
Loss on fair value changes of structured borrowings		8,360	–
Release of prepaid lease payments		561	793
Share of loss of a jointly controlled entity		1,002	–
Operating cash flows before working capital changes		563,088	417,702
Increase in inventories		(317,025)	(98,711)
Increase in trade receivables		(244,512)	(244,155)
Decrease (increase) in deposits, prepayments and other receivables		48,712	(45,949)
Increase in trade payables		42,827	107,184
Increase in other payables		29,059	3,604
Cash generated from operations		122,149	139,675
Interest received		3,000	1,940
Interest paid on bank borrowings		(89,772)	(42,850)
Interest paid on obligations under finance leases		(54)	(251)
Hong Kong Profits Tax paid		(2,104)	(3,004)
Overseas tax paid		(5,942)	(2,246)
NET CASH FROM OPERATING ACTIVITIES		27,277	93,264
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(521,445)	(441,953)
Purchase of investment properties		(122,342)	(29,951)
Investment in a jointly controlled entity		(1,340)	–
Proceeds from disposal of property, plant and equipment		10,279	3,842
Acquisition of a subsidiary	29	–	1,208
Deposit paid for acquisition of property, plant and equipment		–	(3,398)
NET CASH USED IN INVESTING ACTIVITIES		(634,848)	(470,252)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

	2007 HK$'000	2006 HK$'000
FINANCING ACTIVITIES		
New bank loans raised	1,021,132	303,327
Net amount of import loans and trust receipts loans raised	121,778	280,915
Upfront payment of structured borrowings received	85,800	–
New mortgage loans raised	35,000	–
Repayment of bank loans	(768,128)	(182,616)
Dividend paid to the Company's shareholders	(40,221)	(34,563)
Dividend paid to a minority shareholder	(9,065)	(9,800)
Repayment of mortgage loans	(4,537)	(2,216)
Repayment of obligations under finance leases	(2,618)	(5,248)
Gross proceeds from issue of new shares	–	175,800
Transaction costs attributable to issue of new shares	–	(5,467)
NET CASH FROM FINANCING ACTIVITIES	439,141	520,132
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(168,430)	143,144
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	370,762	225,833
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	2,231	1,785
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	204,563	370,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under The Companies Act 1981 of Bermuda (as amended) 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 set out in the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Company is an investment holding company. Its subsidiaries are principally engaged in the production and sale of knitted fabric and dyed yarn and garment products.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

The Group has 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 these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
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]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

[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 except for investment properties and certain financial instruments which are measured at fair value, as explained in the accounting policies set out below:

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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 (the "Listing Rules") 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 on 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.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1 April 2001, the Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions on or after 1 January 2005 (Continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interest in a jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entity.

The results and assets and liabilities of jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in a jointly controlled entity are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount received or receivables for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

Service income and subcontracting income are recognised when services are provided.

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 any accumulated 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 represents, property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment losses. Cost includes all development expenditure and other direct costs, including borrowing costs capitalised in accordance with the Group's accounting policy, attributable to such projects. 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. 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 asset) is included in the consolidated income statement in the year in which the item is derecognised.

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.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) 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 translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 April 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowings 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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs

Payments to the Group's defined contribution retirement benefit plans, Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are charged as expenses when the employees have rendered the services entitling them to the contributions.

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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of 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 profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a 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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss and loans and receivables. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Loans and receivables

Loans and receivables 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 (including trade receivables, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss 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.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity 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 group after deducting all of its liabilities. The Group's financial liabilities are generally classified as financial liabilities as at fair value through profit and loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Financial liabilities at fair value through profit or loss (Continued)

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

The Group's structured borrowing is designated as financial liability at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including bank borrowings, trade payables and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derivative financial instruments

Derivatives financial instrument of the Group do not qualify for hedge accounting, thus, they are deemed as financial assets held for trading or financial liabilities held for trading. Derivatives financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

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 and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised 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 payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted and vested prior to 1 April 2005

The Group does not recognise the financial effect of these share options until they are exercised. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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.

4. FINANCIAL INSTRUMENTS

4a. Financial risk management objectives and policies

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

Market risk

Currency risk

Several subsidiaries of the Company has foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group's foreign exchange exposures arise mainly from the exchange rate movements of Renminbi. The Group will consider hedging significant foreign currency exposure should the need arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

4. FINANCIAL INSTRUMENTS *(Continued)*

4a. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Fair value interest rate risk

The fair value interest rate risk relates to the interest-bearing bank deposits. The directors consider the Group's exposure of such interest rate risk is minimal as the interest-bearing bank deposits have short maturity periods.

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk through the variable-rate bank borrowings and structured borrowings. The Group's management closely monitors the interest rate exposure and has entered into certain interest rate swaps to minimize the cash flow interest rate risk.

Credit risk

As at 31 March 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or debtors is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt 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 counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

4b. Fair value

The fair value of derivative instruments are calculated in accordance with generally accepted pricing models based on discounted cash flow analysis as determined by the financial institution.

The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

5. REVENUE

Revenue represents the amounts received and receivable for goods sold and services provided by the Group to outside customers, less returns and allowances. It is analysed as follows:

	2007 HK$'000	2006 HK$'000
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	**2,607,913**	1,825,340
Production and sale of garment products and provision of quality inspection services	**1,284,131**	1,007,771
	3,892,044	2,833,111

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

For management purpose, the Group is currently organised into two operating divisions: (i) knitted fabric and dyed yarn; and (ii) garment products. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Knitted fabric and dyed yarn	–	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services
Garment products	–	Production and sale of garment products and provision of quality inspection services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Year ended 31 March 2007

	Knitted fabric and dyed yarn HK$'000	Garment products HK$'000	Consolidated HK$'000
REVENUE			
External sales	2,607,913	1,284,131	3,892,044
RESULTS			
Segment results	332,095	93,848	425,943
Unallocated corporate income			29,015
Unallocated corporate expenses			(20,204)
Share of loss of a jointly controlled entity			(1,002)
Finance costs			(62,995)
Profit before taxation			370,757
Income tax expense			(25,967)
Profit for the year			344,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

BALANCE SHEET

At 31 March 2007

	Knitted fabric and dyed yarn HK$'000	Garment products HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	3,736,766	477,018	4,213,784
Interest in a jointly controlled entity	–	338	338
Unallocated corporate assets			441,270
Consolidated total assets			4,655,392
LIABILITIES			
Segment liabilities	458,698	180,468	639,166
Unallocated corporate liabilities			2,003,436
Consolidated total liabilities			2,642,602

OTHER INFORMATION

	Knitted fabric and dyed yarn HK$'000	Garment products HK$'000	Consolidated HK$'000
Capital additions	649,203	24,813	674,016
Depreciation	133,503	11,608	145,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Year ended 31 March 2006

	Knitted fabric and dyed yarn HK$'000	Garment products HK$'000	Consolidated HK$'000
REVENUE			
External sales	1,825,340	1,007,771	2,833,111
RESULTS			
Segment results	275,038	51,935	326,973
Unallocated corporate income			22,608
Unallocated corporate expenses			(11,787)
Finance costs			(36,135)
Profit before taxation			301,659
Income tax expense			(27,941)
Profit for the year			273,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

BALANCE SHEET

At 31 March 2006

	Knitted fabric and dyed yarn HK$'000	Garment products HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	2,795,749	374,941	3,170,690
Unallocated corporate assets			467,498
Consolidated total assets			3,638,188
LIABILITIES			
Segment liabilities	318,253	232,017	550,270
Unallocated corporate liabilities			1,485,231
Consolidated total liabilities			2,035,501

OTHER INFORMATION

	Knitted fabric and dyed yarn HK$'000	Garment products HK$'000	Consolidated HK$'000
Capital additions	421,517	57,353	478,870
Depreciation	95,101	2,978	98,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical Segments

The Group's operations are mainly located in Hong Kong, other regions of the People's Republic of China (the "PRC") and United States of America ("USA").

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2007 HK$'000	2006 HK$'000
Hong Kong	855,242	883,278
Other regions of the PRC	960,394	698,163
USA	1,029,354	692,160
Others	1,047,054	559,510
	3,892,044	2,833,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical Segments *(Continued)*

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and investment properties, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and investment properties	
	As at 31.3.2007 HK$'000	As at 31.3.2006 HK$'000	**As at 31.3.2007 HK$'000**	As at 31.3.2006 HK$'000
Hong Kong	**472,692**	448,355	**126,613**	42,155
Other regions of the PRC	**3,384,588**	2,526,059	**535,746**	419,451
USA	**170,871**	113,838	**–**	–
Others	**185,633**	82,438	**11,657**	17,264
	4,213,784	3,170,690	**674,016**	478,870

7. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on:		
– bank borrowings wholly repayable within five years	**87,789**	41,881
– bank borrowings not wholly repayable within five years	**1,983**	969
– finance leases	**54**	251
Total borrowing costs	**89,826**	43,101
Less: amounts capitalised	**(26,831)**	(6,966)
	62,995	36,135

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 4% (2006: 3%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

8. INCOME TAX EXPENSE

	2007 HK$'000	2006 HK$'000
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax		
– current year	10,987	6,324
– under (over) provision in prior year	744	(773)
	11,731	5,551
Enterprise income tax in the PRC attributable to subsidiaries	14,200	16,808
Overseas income tax	273	185
	26,204	22,544
Deferred tax *(Note 28)*:		
– Current year	(237)	5,397
	25,967	27,941

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, certain Group's PRC subsidiaries are exempted from PRC enterprise income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. Accordingly, the profits of two PRC subsidiaries are subject to PRC income tax at a reduced rate of 12% (2006: 12%) for the year.

On 31 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law unifies the corporate income tax rate to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profits. As at the date of these income statements, details measures concerning these items have yet to be issued by the State Council.

The directors of the Company anticipate that the relevant PRC subsidiaries can continue to enjoy the Tax Holiday granted according to the grandfathering provisions granted in new CIT law of the Company.

Taxation arising in jurisdictions other than Hong Kong and PRC is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

8. INCOME TAX EXPENSE *(Continued)*

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

	2007 HK$'000	2006 HK$'000
Profit before taxation	370,757	301,659
Tax at the domestic income tax rate of 17.5%	64,882	52,790
Tax effect of expenses that are not deductible for tax purpose	15,164	17,225
Tax effect of income not taxable for tax purpose	(31,550)	(19,582)
Under (over) provision in respect of prior years	744	(773)
Tax effect of utilisation of tax losses previously not recognised	(700)	(353)
Tax effect of other deferred tax assets not recognised	2,127	844
Effect of tax exemptions granted to PRC subsidiaries	(992)	(65)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(23,708)	(22,145)
Tax charge for the year	25,967	27,941

Details of deferred taxation are set out in note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

9. PROFIT FOR THE YEAR

	2007 HK$'000	2006 HK$'000
Profit for the year has been arrived at after charging:		
Directors' remuneration *(Note (i))*	16,098	15,867
Other staff costs	214,594	159,691
Total staff costs	230,692	175,558
Auditors' remuneration		
– current year	2,100	1,844
– (over) under provision in prior years	(100)	199
	2,000	2,043
Release of prepaid lease payments	561	793
Depreciation of property, plant and equipment	145,111	98,079
Operating expenses paid to a joint venture partner in the PRC for the use of plant and equipment *(Note (ii))*	3,769	3,901
Loss on fair value changes of structured borrowings	8,360	–
Loss on fair value changes of derivative financial instruments	–	2,054
Net foreign exchange losses	6,345	5,182
and after crediting:		
Gross rental income from investment properties and property, plant and equipment	6,840	3,681
Less: Outgoings	(735)	(586)
Net property rental income	6,105	3,095
Gain on disposal of property, plant and equipment	523	1,539
Gain on fair value changes of investment properties	17,868	17,539
Gain on fair value changes of derivative financial instruments	4,307	–
Interest income	3,000	1,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

9. PROFIT FOR THE YEAR *(Continued)*

Included in the total staff costs is an aggregate amount of approximately HK$9,260,000 (2006: HK$7,466,000) in respect of contributions of retirement benefits schemes made by the Group (Note (iii)).

The cost of inventories recognised as an expense of the Group approximates the cost of sales as disclosed in the consolidated income statement on page 49.

Notes:

(i) Information regarding directors' and employees' emoluments

Directors

The emoluments paid or payable to each of the eight (2006: nine) directors were as follows:

2007

	Li Ming Hung HK$'000	Chen Tien Tui HK$'000	So Kam Wah HK$'000	Lee Yuen Chiu, Andy HK$'000	Choi Lin Hung HK$'000	Kan Ka Hon HK$'000	Phaisalakani Vichai (Andy Hung) HK$'000	Kwok Sze Chi HK$'000	Total HK$'000
Fees	–	–	–	–	–	150	150	150	450
Salaries and other benefits	2,810	2,810	883	1,224	1,785	–	–	–	9,512
Performance related incentive payments	2,127	2,127	228	543	797	–	–	–	5,822
Contribution to retirement benefits scheme	48	48	88	112	18	–	–	–	314
Total emoluments	4,985	4,985	1,199	1,879	2,600	150	150	150	16,098

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

9. PROFIT FOR THE YEAR *(Continued)*

Notes: (Continued)

(i) Information regarding directors' and employees' emoluments *(Continued)*

2006

	Li Ming Hung HK$'000	Chen Tien Tui HK$'000	So Kam Wah HK$'000	Lee Yuen Chiu, Andy HK$'000	Choi Lin Hung HK$'000	Kan Ka Hon HK$'000	Phaisalakani Vichai (Andy Hung) HK$'000	Kwok Sze Chi (appointed on 31 March 2006) HK$'000	Lau Chung Kwan (resigned on 31 March 2006) HK$'000	Total HK$'000
Fees	–	–	–	–	–	150	150	–	150	450
Salaries and other benefits	2,824	2,824	883	1,344	1,620	–	–	–	–	9,495
Performance related incentive payments	2,110	2,110	226	420	810	–	–	–	–	5,676
Contribution to retirement benefits scheme	42	42	86	61	15	–	–	–	–	246
Total emoluments	4,976	4,976	1,195	1,825	2,445	150	150	–	150	15,867

No director waived any emoluments in the year ended 31 March 2007 and 2006.

Employees

The five highest paid individuals of the Group for both years included four (2006: four) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining one (2006: one) individual of the Group, not being a director of the Company, are as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	840	900
Performance related incentive payments	377	315
Retirement benefits scheme contributions	84	84
	1,301	1,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

9. PROFIT FOR THE YEAR *(Continued)*

Notes: (Continued)

(ii) Operating expenses paid to a joint venture partner in the PRC for the use of plant and equipment

The amount includes operating lease rentals in respect of rented premises amounting to approximately HK$956,000 (2006: HK$885,000).

(iii) Retirement benefits scheme contributions

The Group has operated a defined contribution retirement benefit scheme for all qualifying employees in Hong Kong since 1 April 1995. The assets of the scheme are held separately from those of the Group in a provident fund managed by an independent trustee. The retirement benefits scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. According to the Mandatory Provident Fund ("MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group is also required to participate in a MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK$20,000 for each eligible employee) as calculated under the MPF legislation. The Group's employer contributions vest fully in the employees when contributed into the MPF Scheme.

Both the defined contributions retirement benefits scheme and the MPF scheme co-existed within the Group in both years.

As at 31 March 2007 and 2006, there were no forfeited contributions available to offset future employers' contributions to the scheme.

The Company's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on 17% of the salaries of the relevant subsidiaries' employees, are charged to the income statement in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

In addition, certain overseas subsidiaries of the Company are required to contribute amounts based on employees' salaries to the retirement benefit schemes as stipulated by relevant local authorities. The employees are entitled to the these subsidiaries' contributions subject to the regulations of the relevant local authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

10. DISTRIBUTIONS

	2007 HK$'000	2006 HK$'000
Interim dividend of HK7.2 cents (2006: HK6.5 cents) per ordinary share	46,919	37,331
Proposed final dividend of HK6.8 cents (2006: HK6.0 cents) per ordinary share	45,032	38,616
	91,951	75,947

The amount of dividends recognised as distributions to equity holders of the Company was HK$85,535,000 (2006: HK$68,531,000) for the year ended 31 March 2007.

	2007 HK$'000	2006 HK$'000
Interim dividend of HK7.2 cents (2006: HK6.5 cents) per ordinary share	46,919	37,331
2006 final dividend of HK6.0 cents (2005: HK5.5 cents) per ordinary share	38,616	31,200
	85,535	68,531

The amount of the final dividend proposed for the year ended 31 March 2007, which will be in cash form with a scrip dividend option, has been calculated by reference to the 662,233,899 issued ordinary shares outstanding as at the date of these financial statements.

The final dividend of HK6.8 cents (2006: HK6.0 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

During the year, scrip dividends were offered in respect of the 2006 interim and final dividends and the 2007 interim dividend. These scrip dividends were as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

10. DISTRIBUTIONS *(Continued)*

	2007	2006	
	Interim	Interim	Final
	HK$'000	HK$'000	HK$'000
Cash	**20,656**	17,007	19,744
Share alternative	**26,263**	20,324	18,872
	46,919	37,331	38,616

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company for the year is based on the following data:

	2007	2006
	HK$'000	HK$'000
Earnings		
Profit for the year attributable to equity holders of the Company	**305,501**	250,269
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**648,954,956**	576,662,264
Effect of dilutive potential ordinary shares in respect of share options	**4,214,086**	677,126
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**653,169,042**	577,339,390

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Construction in progress HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Total HK$'000
COST							
At 1 April 2005	430,252	103,169	16,264	8,672	17,227	706,910	1,282,494
Exchange realignment	26,922	3,600	424	5	292	31,567	62,810
Additions	141,832	190,628	7,248	4,150	2,945	102,116	448,919
Acquisition of a subsidiary	–	–	3,775	2,139	280	3,622	9,816
Transfer	286,144	(287,034)	–	–	–	890	–
Transfer from investment properties	550	–	–	–	–	–	550
Disposals	–	–	(361)	–	(1,034)	(5,561)	(6,956)
At 31 March 2006	885,700	10,363	27,350	14,966	19,710	839,544	1,797,633
Exchange realignment	53,398	1,295	744	338	401	43,646	99,822
Additions	207,103	211,956	6,108	2,762	2,644	121,101	551,674
Transfer	174,444	(174,444)	–	–	–	–	–
Disposals	–	–	(434)	(467)	(967)	(11,786)	(13,654)
At 31 March 2007	**1,320,645**	**49,170**	**33,768**	**17,599**	**21,788**	**992,505**	**2,435,475**
DEPRECIATION							
At 1 April 2005	38,469	–	9,691	6,973	9,737	219,905	284,775
Exchange realignment	1,940	–	357	77	228	11,030	13,632
Provided for the year	22,069	–	3,018	747	2,908	69,337	98,079
Eliminated on disposals	–	–	(127)	–	(443)	(4,083)	(4,653)
At 31 March 2006	62,478	–	12,939	7,797	12,430	296,189	391,833
Exchange realignment	3,796	–	320	92	265	17,194	21,667
Provided for the year	24,706	–	4,906	1,578	2,878	111,043	145,111
Eliminated on disposals	–	–	(407)	(462)	(967)	(2,062)	(3,898)
At 31 March 2007	**90,980**	**–**	**17,758**	**9,005**	**14,606**	**422,364**	**554,713**
CARRYING VALUE							
At 31 March 2007	**1,229,665**	**49,170**	**16,010**	**8,594**	**7,182**	**570,141**	**1,880,762**
At 31 March 2006	823,222	10,363	14,411	7,169	7,280	543,355	1,405,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

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

The above items of property, plant and equipment are depreciated using the straight line method at the following rates per annum:

Buildings	4% per annum
Leasehold improvements	5 to 10 years or over the term of the relevant leases, if shorter
Furniture, fixtures and equipment	15% – 25% per annum
Motor vehicles	20% per annum
Plant and machinery	$6^2/_3$% – 25% per annum

All of the Group's leasehold buildings are held under medium-term leases in the PRC.

The carrying value of property, plant and equipment held under finance leases at 31 March 2006 amounted to approximately HK$24,119,000 (2007: nil).

13. PREPAID LEASE PAYMENTS

	2007 HK$'000	2006 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term leases	4,009	4,827
Leasehold land outside Hong Kong:		
Medium-term leases	20,640	18,610
	24,649	23,437
Analysed for reporting purposes as:		
Current asset	670	783
Non-current asset	23,979	22,654
	24,649	23,437

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

14. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 April 2005	45,930
Additions	29,951
Gain on fair value changes recognised in the income statement	17,539
Transfer to property, plant and equipment	(550)
At 31 March 2006	92,870
Additions	122,342
Gain on fair value changes recognised in the income statement	17,868
At 31 March 2007	**233,080**

The fair value of the Group's investment properties as at the balance sheet dates has arrived at on the basis of a valuation carried out as of that date by Savills (Hong Kong) Limited, independent qualified professional valuers not connected with the Group. Savills (Hong Kong) Limited is a member firm of the Institute of Valuers, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using fair value model and are classified and accounted for as investment properties. They are all situated in Hong Kong and are held under medium-term leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

15. GOODWILL

	HK$'000
COST	
At 1 April 2005	644
Acquisition of a subsidiary (note 29)	5,541
At 31 March 2006 and 31 March 2007	**6,185**

As explained in Note 6, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill was allocated to a cash generating unit (CGU), which is the garment products segment. The carrying amount of goodwill (net of accumulated impairment losses) as at 31 March 2007 allocated to this unit is as follows:

	Goodwill HK$'000
Garment products	**6,185**

During the year ended 31 March 2007, management of the Group determined that there was no impairment of the above CGU based on a value in use calculation.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of these units to exceed the aggregate recoverable amount of this unit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

As at 31 March 2007, the Group had interest in the following jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Proportion of nominal value of issued capital held by the Group	Principal activity
Gojifashion Inc.	Incorporation	Canada	Canada	50%	Sale and marketing of knitwear apparels

	2007 HK$'000	2006 HK$'000
Cost of unlisted investment in a jointly controlled entity	1,340	–
Share of loss	(1,002)	–
	338	–

17. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	665,231	422,913
Work in progress	261,249	242,310
Finished goods	291,924	195,506
	1,218,404	860,729

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

18. TRADE RECEIVABLES

The Group allows an average credit period of 90 – 120 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	2007 HK$'000	2006 HK$'000
0 – 60 days	**714,194**	527,271
61 – 90 days	**125,301**	80,826
91 – 120 days	**82,500**	56,242
Over 120 days	**35,016**	42,293
	957,011	706,632

19. BANK BALANCES AND CASH

Bank balances and cash of the Group comprises bank balances and cash held and short-term bank deposits that are interest-bearing at market interest rate and are with maturity of three months or less. The bank deposits carry fixed interest rates ranged from 3.0% to 5.4% (2006: 3.2% to 5.4%) per annum.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Renminbi (equivalent to HK$'000)
As at 31 March 2007	**26,099**
As at 31 March 2006	38,542

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

20. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2007 HK$'000	2006 HK$'000
0 – 60 days	423,973	377,796
61 – 90 days	44,226	44,425
Over 90 days	71,595	52,743
	539,794	474,964

21. OBLIGATIONS UNDER FINANCE LEASES

In previous years, the Group leased certain of its fixtures and equipment under finance leases. All these leases expired during the year. Interest rates of these leases were fixed with a range of 5.2% to 5.4% per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Amounts payable under finance leases:				
Within one year	–	2,673	–	2,618
Less: Future finance charges	–	(55)	–	–
Present value of lease obligations	–	2,618	–	2,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

22. BANK BORROWINGS

	2007 HK$'000	2006 HK$'000
Bank loans	1,183,084	930,080
Bills discounted with recourse and debts factored with recourse	200,030	191,248
Import loans and trust receipts loans	395,205	282,208
Mortgage loans	65,404	34,942
	1,843,723	1,438,478
Analysed as:		
– secured	65,405	53,388
– unsecured	1,778,318	1,385,090
	1,843,723	1,438,478
Carrying amount repayable:		
On demand or within one year	788,483	837,287
In more than one year but not more than two years	219,715	240,436
In more than two years but not more than three years	401,541	228,568
In more than three years but not more than four years	394,890	112,877
In more than four years but not more than five years	19,198	4,243
In more than five years	19,896	15,067
	1,843,723	1,438,478
Less: Amount due within one year included in current liabilities	(788,483)	(837,287)
Amount due after one year	1,055,240	601,191

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For the year ended 31 March 2007

22. BANK BORROWINGS *(Continued)*

An amount of HK$985,000,000 included in bank loans as at 31 March 2007 represented the drawn portion of a syndicated loan facility of HK$1,388,000,000 arranged in February 2007. The syndicated loan facility bears interest at Hong Kong Interbank Offered Rate plus 0.50% per annum with a tenure of 5 years. The effective interest rate of the Group's other variable-rate bank borrowings are within a range from 4.9% to 5.8% (2006: 3.2% to 5.2%) per annum.

The Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Renminbi (equivalent to HK$'000)	**United States dollars** (equivalent to HK$'000)
As at 31 March 2007	**–**	**17,638**
As at 31 March 2006	33,155	79,823

23. STRUCTURED BORROWINGS

During the year, the Group entered into two contracts of structured borrowings with financial institutions for a period of five years. Both contracts were designated as financial liabilities at fair value through profit or loss.

	2007 HK$'000	2006 HK$'000
Structured borrowings, at fair value classified as:		
Current *(note i and ii)*	**18,832**	–
Non-current *(note i)*	**75,328**	–
	94,160	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

23. STRUCTURED BORROWINGS *(Continued)*

Notes:

(i) The structured borrowing contains embedded derivatives which are not closely related to the host contract, hence the entire combined contract was designated as at fair value through profit or loss upon initial recognition.

(ii) The current portion represents the minimum amount repayable to the bank within one year.

Major terms of the structured borrowing are set out below:

Notional amount	Notional amount (HK$ equivalent)	Upfront payment	Maturity date	Repayment amount
US$50,000,000	HK$390,000,000	US$5,000,000	11 October 2011	First half year: 2% on notional amount Remaining four and half years: 8% minus (6% x N/M) on notional amount
US$60,000,000	HK$468,000,000	US$6,000,000	22 September 2011	First half year: 2% on notional amount Remaining four and half years: 8.5% minus (6.5% x N/M) on notional amount

Where:

N = number of business days in the period for which Spread Rate > -0.13% and > -0.10% for the structured borrowing with notional amount of US$50,000,000 and US$60,000,000 respectively.

M = actual number of business days in the period

"Spread Rate" means 10 years US$-ISDA-Swap Rate minus 2 years US$-ISDA-Swap Rate

"10 years US$-ISDA-Swap Rate" means the rate for U.S. Dollar swaps with a maturity of the designated maturity of 10 years, expressed as a percentage which appears on the Reuters Screen ISDAFIX1 Page as of 11:00 a.m. New York time on each business day.

"2 years US$-ISDA-Swap Rate" means the rate for U.S. Dollar swaps with a maturity of the designated maturity of 2 years, expressed as a percentage which appears on the Reuters Screen ISDAFIX1 Page as of 11:00 a.m. New York time on each business day.

Both structured borrowings are measured at fair value and change in their fair value of HK$8,360,000 as compared with the upfront payment received has been charged to the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
	HK$'000	HK$'000	HK$'000	HK$'000
Interest rates swaps	1,649	(25)	236	(3,136)
Foreign currency forward contracts	–	–	225	(8)
	1,649	(25)	461	(3,144)

Major terms of the interest rate swaps as at 31 March 2007 are as follows:

Notional amount	Maturity	Swaps
HK$10,937,500	18 March 2008	*Note i*
HK$250,000,000	3 December 2007	*Note ii*
HK$200,000,000	2 December 2007	*Note ii*

Notes:

(i) The Group is receiving a 3-month Hong Kong dollars HIBOR for the remaining life of the interest rate swap period. The Group is paying for a floating rate of 6-month Hong Kong dollars HIBOR less 0.35% throughout the interest rate swap period to the counterparty.

(ii) The Group is receiving 6-month Hong Kong dollars HIBOR for the remaining life of the interest rate swap period. The Group is paying for a fixed rate of 3% or 6-month Hong Kong dollars HIBOR throughout the interest rate swap period to the counterparty, whichever is lower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

25. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
At 1 April 2005, 31 March 2006 and 31 March 2007, at HK$0.01 each	40,000,000,000	400,000
Issued and fully paid:		
At 1 April 2005	567,271,859	5,673
Issue of shares pursuant to scrip dividend scheme for 2005 final and 2006 interim dividend *(Note i)*	16,329,274	163
Placing of new shares *(Note ii)*	60,000,000	600
At 31 March 2006	643,601,133	6,436
Issue of shares pursuant to scrip dividend scheme for 2006 final and 2007 interim dividend *(Note iii)*	17,332,766	173
At 31 March 2007	**660,933,899**	**6,609**

Notes:

(i) On 7 October 2005 and 23 February 2006, the Company issued and allotted a total of 7,047,799 shares and 9,281,475 shares of HK$0.01 each at an issue price of HK$1.9323 and HK$2.1898 each in lieu of cash for the 2005 final and 2006 interim dividends pursuant to the scrip dividend circulars dispatched to shareholders on 7 September 2005 and 16 January 2006 respectively. These shares rank pari passu in all respects with the then existing shares.

(ii) Pursuant to a placing agreement dated 15 February 2006, an aggregate of 60,000,000 ordinary shares of HK$0.01 each in the Company were placed by Pearl Garden Pacific Limited and Madian Star Limited to independent investors at the price of HK$2.93 per share. On completion of placing, Pearl Garden Pacific Limited and Madian Star Limited together subscribed for an aggregate of 60,000,000 new shares in the Company at the price of HK$2.93 per share so as to raise further working capital for the Company and broaden its capital base. These shares ranked pari passu with the then existing shares in all respects. The net proceeds from the subscription of approximately HK$170 million were used by the Group's for the expansion of the Group's production capacity and for general working capital purposes. Details of the placement and subscription were disclosed in the announcement issued by the Company on 16 February 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

25. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(iii) On 27 September 2006 and 9 February 2007, the Company issued and allotted a total of 8,055,608 shares and 9,277,158 shares of HK$0.01 each at an issue price of HK$2.3427 and HK$2.8310 each in lieu of cash for the 2006 final and 2007 interim dividends pursuant to the scrip dividend circulars dispatched to shareholders on 8 September 2006 and 19 January 2007 respectively. These shares rank pari passu in all respects with the then existing shares.

26. CAPITAL RESERVE

The capital reserve of the Group represents the difference between the nominal value of shares issued by the Company and the aggregate nominal value of the issued share capital of subsidiaries acquired pursuant to the group reorganisation which became effective on 22 April 1996, reduced by an amount of approximately HK$68,429,000 arising from the capital reduction in January 2001.

27. SHARE-BASED PAYMENT TRANSACTIONS

At a special general meeting of the Company held on 30 November 2001 ("Adoption Date"), the shareholders of the Company approved the adoption of the new share option scheme of the Company (the "Scheme") and the termination of the then existing share option scheme of the Company. The Scheme was adopted for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group, and will expire on 29 November 2011. Under the Scheme, the Board of Directors of the Company may grant options to full-time employees, including executive directors of the Company and its subsidiaries, and any participants from time to time determined by the Board of Directors as having contributed or may contribute to the development and growth of the Group to subscribe for shares in the Company.

At 31 March 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 132,000,000 (2006: 133,400,000), representing approximately 20% (2005: 21%) of the shares of the Company in issue at that date. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme and any other share option scheme of the Group) to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue on the Adoption Date. Such 10% limit may be refreshed, subject to specific approval by the shareholders of the Company, from time to time with reference to the issued share capital of the Company for the time being. Subject to specific approval by the shareholders of the Company, the total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Options granted must be taken up within 21 days from the date of grant, upon payment of HK$1 per grant of option(s). Options may, subject to the black-out periods under the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors of the Company may at its discretion determine the specific exercise period and exercise price. The exercise price shall not be less than the highest of (i) the closing price of shares on the Stock Exchange on the date of the offer of grant; (ii) the average closing price of shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The following table discloses movements in the Company's share options during both years:

				Number of option shares				
Category	Date of grant	Exercise price HK$	Exercisable period	Outstanding at 1.4.2005	Lapsed during the year	Outstanding at 1.4.2006	Lapsed during the year	Outstanding at 31.3.2007
Directors								
Mr. Li Ming Hung	9 October 2003	3.04	9.10.2004 – 29.11.2011	500,000	–	500,000	–	500,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	1,000,000	–	1,000,000	–	1,000,000
Mr. Chen Tien Tui	9 October 2003	3.04	9.10.2004 – 29.11.2011	500,000	–	500,000	–	500,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	1,000,000	–	1,000,000	–	1,000,000
Mr. So Kam Wah	23 May 2003	2.35	27.5.2003 – 29.11.2011	3,300,000	–	3,300,000	–	3,300,000
	9 October 2003	3.04	9.10.2004 – 29.11.2011	1,700,000	–	1,700,000	–	1,700,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	4,000,000	–	4,000,000	–	4,000,000
Mr. Lee Yuen Chiu, Andy	23 May 2003	2.35	27.5.2003 – 29.11.2011	1,500,000	–	1,500,000	–	1,500,000
	9 October 2003	3.04	9.10.2004 – 29.11.2011	3,500,000	–	3,500,000	–	3,500,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	4,000,000	–	4,000,000	–	4,000,000
Mr. Choi Lin Hung	23 May 2003	2.35	27.5.2003 – 29.11.2011	1,500,000	–	1,500,000	–	1,500,000
	9 October 2003	3.04	9.10.2004 – 29.11.2011	3,500,000	–	3,500,000	–	3,500,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	4,000,000	–	4,000,000	–	4,000,000
Employees	23 May 2003	2.35	27.5.2003 – 29.11.2011	23,100,000	–	23,100,000	–	23,100,000
	9 October 2003	3.04	9.10.2004 – 29.11.2011	40,100,000	(300,000)	39,800,000	(700,000)	39,100,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	40,800,000	(300,000)	40,500,000	(700,000)	39,800,000
				134,000,000	(600,000)	133,400,000	(1,400,000)	132,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

28. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000
At 1 April 2005	–	3,754	3,754
Charge to income statement for the year	2,203	3,194	5,397
At 31 March 2006	2,203	6,948	9,151
(Credit) charge to income statement for the year	(1,934)	1,697	(237)
At 31 March 2007	**269**	**8,645**	**8,914**

At the balance sheet date, the Group had unused tax losses of approximately HK$3,865,000 (2006: HK$7,867,000) available for offset against future profits and deductible temporary difference of approximately HK$34,085,000 (2006: HK$21,931,000) in respect of accelerated accounting depreciation. No deferred tax assets have been recognised in respect of the unused tax losses and the deductible temporary differences due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

29. ACQUISITION OF A SUBSIDIARY

During the year ended 31 March 2006, the Group acquired 60% of the share capital of 江門冠暉製衣有限公司 for a consideration of HK$12,000,000. This acquisition was accounted for using the purchase method. The amount of goodwill arose as a result of the acquisition was HK$5,541,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

29. ACQUISITION OF A SUBSIDIARY *(Continued)*

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination and fair value HK$'000
Net assets acquired:	
Property, plant and equipment	9,816
Inventories	5,074
Trade receivables	3,528
Deposits, prepayments and other receivables	481
Bank balances and cash	1,208
Trade payables	(7,505)
Other payables	(1,813)
Taxation payable	(24)
	10,765
Minority interests	(4,306)
	6,459
Goodwill	5,541
Total consideration	12,000

Net cash inflow arising on acquisition, represented by cash and cash equivalent acquired, was HK$1,208,000 for the year ended 31 March 2006.

The goodwill arising on the acquisition of 江門冠暉製衣有限公司 is attributable to the anticipated profitability of the garment manufacturing business and the anticipated future operating synergies from the combination.

江門冠暉製衣有限公司 contributed revenue of HK$13,690,000 and profit of HK$1,125,000 to the Group's profit before taxation for the year ended 31 March 2006 during the period between the date of acquisition and the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

29. ACQUISITION OF A SUBSIDIARY *(Continued)*

If the acquisition had been completed on 1 April 2005, total group revenue and profit for the year ended 31 March 2006 would have been HK$2,850,443,000 and HK$278,757,000 respectively. The proforma information is for illustration purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2005, nor is it intended to be a projection of future results.

30. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2006, the consideration of HK$12,000,000 payable to the vendor for the acquisition of a subsidiary as set out in note 29 was offset against the trade receivables from the same vendor upon the execution of the set-off agreement.

Details of scrip dividends in lieu of cash are set out in note 25(iii).

31. PLEDGE OF ASSETS

As at 31 March 2007, the carrying value of the Group's assets which were pledged to secure credit facilities granted to the Group are as follows:

	2007 HK$'000	2006 HK$'000
Investment properties	173,100	91,700
Property, plant and equipment	–	19,824
	173,100	111,524

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

32. COMMITMENTS

(i) Capital commitments

	2007 HK$'000	2006 HK$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	53,810	74,919

(ii) Operating lease commitments and arrangements

The Group as lessee

	2007 HK$'000	2006 HK$'000
Minimum lease payments paid under operating leases in respect of premises during the year	4,581	2,514

At the balance sheet date, the Group had commitments for future minimum lease payments, excluding the amount as set out in (i) above, under non-cancellable operating leases in respect of rented premises and warehouses which fall due as follows:

	2007 HK$'000	2006 HK$'000
Within one year	3,230	2,584
In the second to fifth year inclusive	1,858	2,402
	5,088	4,986

Operating lease payment represents rental payable by the Group for its office premises and warehouse. Leases are negotiated for terms ranging from one to four years and rental is fixed throughout the lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

32. COMMITMENTS *(Continued)*

(ii) Operating lease commitments and arrangements *(Continued)*

The Group as lessor

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

	2007 HK$'000	2006 HK$'000
Within one year	7,610	1,909
In the second to fifth year inclusive	5,098	792
	12,708	2,701

All of the investment properties held have committed tenants for the next two years.

33. RELATED PARTY DISCLOSURES

(i) During the year, the Group paid operating lease rentals amounting to approximately HK$108,000 (2006: HK$108,000) to Verdure Enterprises Limited ("Verdure"). Verdure is owned by a discretionary trust, the beneficiaries of which include Mr. Li Ming Hung, a director of the Company, and his family.

The payment of the above operating lease rentals constitutes an exempted connected transaction under Chapter 14A of the Listing Rules.

(ii) During the year ended 31 March 2006, the Group entered into a tenancy agreement for a term of three years commencing from 1 July 2005 with Giant Step Limited ("Giant Step") for leasing premise from Giant Step to the Group in Hong Kong. The issued share capital of Giant Step is directly or indirectly owned as to 25% each by a discretionary trust whose discretionary beneficiaries are the family members of Mr. Li Ming Hung, a discretionary trust whose discretionary objects are the family members of Mr. Chen Tien Tui (the two trusts are collectively referred to as the "Trusts") and Mr. Choi Lin Hung, a director of the Company. During the year ended 31 March 2006, the Group paid rental expenses of HK$1,024,000 (2007: Nil) to Giant Step. The agreement was terminated in February 2006.

The tenancy agreement constituted a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

33. RELATED PARTY DISCLOSURES *(Continued)*

(iii) On 9 September 2005, the Group entered into a master sale and purchase agreement ("Master Supply Agreement") with 南京新一棉紡織印染有限公司 Nanjing Synergy Textiles Limited ("Nanjing Synergy"). The entire equity interest of Nanjing Synergy is indirectly owned by the Trusts in equal share. Pursuant to the Master Supply Agreement, Nanjing Synergy agreed to supply yarn to the Group and the purchase during the year was approximately HK$167,644,000 (2006: HK$65,711,000). As at 31 March 2007, the aggregate amount of purchase deposits placed by the Group in Nanjing Synergy was approximately HK$63,872,000 (2006: HK$65,447,000) which were included in deposits, prepayments and other receivables.

The transactions contemplated by the Master Supply Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

(iv) During the year ended 31 March 2006, Pearl Garden Pacific Limited and Madian Star Limited together subscribed for an aggregate of 60,000,000 shares in the Company at the price of HK$2.93 per share, details of which are disclosed in note 25 (ii). The entire issued share capital of Pearl Garden Pacific Limited is owned by a discretionary trust, the objects of which include Mr. Li Ming Hung and his family. The entire issued share capital of Madian Star Limited is owned by a discretionary trust, the objects of which include Mr. Chen Tien Tui and his family.

The subscription of an aggregate of 60,000,000 shares by Pearl Garden Pacific Limited and Madian Star Limited as mentioned above constituted exempt connected transaction for the Company under Chapter 14A of the Listing Rules.

(v) At 31 March 2007, the Company and certain of its wholly owned subsidiaries had conditionally agreed to provide guarantees in favour of several banks in respect of facilities granted by the banks to Ford Glory International Limited ("Ford Glory"), a subsidiary of the Company in which Mr. Choi Lin Hung has a 49% beneficial interest.

The guarantees given by the Group in respect of credit facilities granted to Ford Glory amounted to HK$339 million in aggregate as at 31 March 2007 (2006: HK$399 million). The amount of financial assistance provided exceeds the proportional interest of the Company in Ford Glory. The provision of the guarantees constitutes connected transactions under Rule 14A.13(2) of the Listing Rules. Mr. Choi Lin Hung did not provide similar guarantees to the banks but had provided pro rata counter indemnity to the Company and the relevant wholly owned subsidiaries of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

33. RELATED PARTY DISCLOSURES *(Continued)*

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

	2007 HK$'000	2006 HK$'000
Short-term benefits	17,001	16,736
Post employment benefits	398	430
	17,399	17,166

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

The above payment of remuneration did not constitute connected transaction for the Company under Chapter 14A of the Listing Rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value issued/ registered capital held by the Company/ subsidiaries %	Effective proportion of issued/registered capital held by the Group %	Principal activities
Best Linkage (Macao Commercial Offshore) Limited	Macau	MOP100,000	100	100	Trading of knitted fabric
Champion Fortune Asia Limited	Hong Kong	Ordinary HK$2	100	100	Trading of dyed yarn
CSG Apparel Inc.	Canada	Common stock CAD1	100	51	Trading of garment products
Elite Sound Investment Limited	Hong Kong	Ordinary HK$1	100	100	Property holding
Ford Glory Holdings Limited	British Virgin Islands	Ordinary US$100	51	51	Investment holding
Ford Glory International Limited	Hong Kong	Ordinary HK$5,000,000	100	51	Trading of garment products
Glory Time Limited	Hong Kong	Ordinary HK$100	70	35.70	Trading of garment products
Grace Link Enterprises Limited	Hong Kong	Ordinary HK$10	100	100	Property holding
PT Victory Apparel Semarang	Indonesia	Ordinary US$300,000	100	51	Manufacture of garment
Silver Success Limited	Hong Kong	Ordinary HK$100	90	32.13	Trading of garment products

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For the year ended 31 March 2007

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value issued/ registered capital held by the Company/ subsidiaries *%*	Effective proportion of issued/registered capital held by the Group *%*	Principal activities
Top Star Limited	Hong Kong	Ordinary HK$2	100	51	Property holding
V-Apparel International Limited	Hong Kong	Ordinary HK$100	100	100	Manufacture of garment
Value Plus (Macao Commercial Offshore) Limited	Macau	MOP100,000	100	51	Provision of quality inspection service
Victory Apparel Jordan Manufacturing Limited	Jordan	Ordinary JD50,000	100	51	Manufacture of garment
Victory City Company Limited	Hong Kong	Ordinary HK$10 Deferred (Note (i)) HK$8,000,000	100	100	Trading of knitted fabric
Victory City Holdings Limited	British Virgin Islands	Ordinary US$6	100	100	Investment holding
Victory City Investments Limited	British Virgin Islands	Ordinary US$1	100	100	Investment holding
Victory City Overseas Limited ("VCOL")	British Virgin Islands	Ordinary US$2 Preference (Note (ii)) US$3,300	100	100	Investment holding and provision of subcontracting services
江門市新會區冠華針織廠有限公司 ("Xinhui Victory City") (Note (iii))	PRC	US$20,944,510	100	100	Knitting, dyeing and finishing of fabric

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value issued/ registered capital held by the Company/ subsidiaries %	Effective proportion of issued/registered capital held by the Group %	Principal activities
江門市新會區揚名針織廠有限公司	PRC	(Note (iv))	100	100	Knitting, dyeing and finishing of fabric
江門錦豐科技纖維有限公司 *(Note (v))*	PRC	US$2,837,027	100	100	Dyeing of yarn and provision of related subcontracting services
江門冠暉製衣有限公司 *(Note (v))*	PRC	HK$22,008,126	60	60	Manufacture of garment
福之源貿易(上海)有限公司 *(Note (v))*	PRC	RMB1,000,000	100	51	Trading of garment products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

(i) The deferred shares, which are not held by the Group, practically carry no rights to dividend or to receive notice of or to attend or vote at any general meeting of respective subsidiaries or to participate in any distribution on a winding-up.

(ii) The redeemable non-voting preference shares of VCOL, which are held by Messrs. Li Ming Hung, Chen Tien Tui and Choi Lin Hung, carry minimal right to receive notice of or to attend or vote at any general meeting of VCOL. On a winding-up, the holders of the redeemable non-voting preference shares shall be entitled to receive a return of the capital paid up on the redeemable non-voting preference shares held by them respectively.

(iii) Pursuant to the co-operative joint venture contract and various supplemental agreements, the Group is to bear the entire risk and liabilities and share the entire profit and loss of Xinhui Victory City during the term of the co-operative joint venture commencing from 6 May 1988 (date of establishment of Xinhui Victory City) to 31 August 2007. Upon dissolution of Xinhui Victory City, the PRC joint venture partner will re-possess the assets it had contributed or the residual value of the assets, which should be determined by both parties. The Group has accordingly paid the PRC joint venture partner an operating expense for the use of plant and machinery and factory premises contributed and other facilities provided by the PRC joint venture partner, and Xinhui Victory City is treated by the Group as a wholly-owned subsidiary for accounting purposes.

(iv) The company is a co-operative joint venture established in the PRC. The verified paid up registered capital of 江門市新會區揚名針織廠有限公司 was approximately US$1,709,000 as at 31 March 2007, which was wholly contributed by the Group. Additional capital contribution by the Group during the year ended 31 March 1999, which amounted to approximately US$394,000, has not yet been verified as at 31 March 2007.

(v) This company is a wholly foreign owned enterprise incorporated in the PRC with limited liability.

None of the subsidiaries had any debt securities subsisting at 31 March 2007 or at any time during the year.

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

VICTORY CITY
INTERNATIONAL HOLDINGS LIMITED

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