

# Contents

---

Corporate Information	2
Chairman's Statement	3
Biographical Details of Directors and Senior Management	7
Directors' Report	9
Corporate Governance Report	14
Auditors' Report	18
Consolidated Income Statement	20
Consolidated Balance Sheet	21
Consolidated Statement of Changes in Equity	22
Consolidated Cash Flow Statement	23
Notes to the Consolidated Financial Statements	25
Financial Summary	66

---

## Corporate Information

### DIRECTORS

#### Executive Directors

Li Man Ching (*Chairman*)

Li Mei Lin (*Deputy Chairman and  
Chief Executive Officer*)

Li Man Shun

Fung Chi Ki

#### Independent Non-Executive

##### Directors

Tsui Wing Yin

Lau Chung Man, Louis

So Kin Wah

### COMPANY SECRETARY

Fung Chi Ki

### REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units C-D, 8th Floor

Mai Shun Industrial Building

18-24 Kwai Cheong Road

Kwai Chung

New Territories

Hong Kong

### AUDITORS

Deloitte Touche Tohmatsu

35th Floor

One Pacific Place

88 Queensway

Hong Kong

### SOLICITORS

Michael Li & Co

14/F, Printing House

6 Duddell Street, Central

Hong Kong

### PRINCIPAL SHARE REGISTERS

Butterfield Corporate Services Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

### HONG KONG BRANCH SHARE REGISTRARS

Secretaries Limited

26/F, Tesbury Centre

28 Queen's Road East

Hong Kong

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited

Wing Hang Bank Ltd.

# Chairman's Statement

Dear Shareholders,

I announce the audited consolidated financial results of Kwong Hing International Holdings (Bermuda) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st March, 2006.

## RESULTS

For the year ended 31st March, 2006, the Group recorded a turnover of approximately HK\$405,347,000 representing a decrease 23.3% compared to that of last year, and gross profit is only approximately HK\$17,935,000 which represented decrease of approximately 67.1% compared to that of last year. Decrease in turnover is attributable to the disposal of Sweetime Limited and its subsidiary which had a turnover contribution of approximately HK\$69,565,000 to the Group last year. Taking out this factor, the Group's turnover decreased by 11.7%. Moreover, the increase of production costs and keen competition also have narrowed the Group's gross margin 10.3% to 4.4%. As a result, the Group recorded a net loss of approximately HK\$14,662,000 for the year.

## DIVIDEND

The directors do not recommend the payment of dividend for the year ended 31st March, 2006.

## BUSINESS REVIEW

The abolishment of quota among the members of WTO since the beginning of 2005 had induced a series of actions in US for the application of re-instate of the quota for certain China textile products, which brought a lot of disputes between US government and Chinese Government. Such uncertainties had delayed the order placement of our ultimate customers, which affected the Group's performance this year, as US provide a major market to the Group's customers. As a result, the turnover of manufacture and sales of knitted fabric and dyed yarns including inter-segment sales was only approximately HK\$395,711,000 representing a decrease of 12.8% as compared to that of last year. Its production cost had been increased sharply because of the increase of the price of dyed material, coal and electricity, and salary and wages in China, which resulted to its operating result of loss of appropriately HK\$14,294,000 this year. Manufacture and sales of garment recorded a loss of HK\$4,693,000 as it is still in the initial stage of establishment.

## Chairman's Statement

### BUSINESS REVIEW (continued)

During the year, management focused on controlling its operating cost and enhancing its competitive position. Under the extreme competitive environment, the Group managed to control its other production cost and overhead expenses at competitive level. The Group had also continued its prudent and conservative customers' credit policy and monitored closely its inventory level as well as production requirements. These measures also enable the Group to maintain a healthy cash level.

During the year, the Group invested approximately HK\$6,668,000 in property, plant and equipment to upgrade its factory and production facilities as to increase its productivity and to enhance its production quality. Together with the capital investments in previous years, the Group is able to satisfy the increasing demands of its product at better economies of scales.

### PROSPECTS

Looking forward, the future of the Group is expected to improve because of the solution of the quota dispute between China and US in November 2005. However, the above other unfavourable factors will continuously affect the Group's performance. The board believed that the business environment in the coming year is expected to be highly competitive and more challenging. The Group will continuously focus in cutting costs, rationalizing its operations, pursuing a cautionary credit policy for its customers and improving its product quality in order to achieve a better return for its shareholders.

In market front, the Group will strive to expand into the Asian and the PRC markets so as to expand the Group's customers base and to reduce the reliance on the US markets.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March, 2006, the Group's shareholders' equity amounted to HK\$379,574,000, while total bank indebtedness amounted to approximately HK\$19,686,000, and cash on hand amount to approximately HK\$78,409,000. The Group's bank indebtedness to equity ratio is only 0.05. Current ratio is 5.1. The Board believes that the Group's sound and healthy financial position will enable it to finance its operation and explore other business development opportunities.

## Chairman's Statement

### LIQUIDITY AND FINANCIAL RESOURCES (continued)

As at 31st March, 2006, the Group hold a long-term high graded securities investments of approximately HK\$15,600,000 including HK\$7,800,000 of which has been pledged to a bank as security for general banking facilities granted to the Group.

The Groups' assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars, the exchange rate between them are relative stable, and therefore the Group's exposure to currency exchange risk was minimal.

### PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's buildings with an aggregate net book value of approximately HK\$2,308,000, held-to-maturity investment of approximately HK\$7,800,000 and bank deposit of HK\$4,000,000 were pledged to banks as security for general banking facilities granted to the Group.

### STAFF AND REMUNERATION POLICIES

As at 31st March, 2006, the Group had approximately 1,640 employees. The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The emoluments of the directors of the Company are decided by the board of directors, as authorised by the shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company maintains a share option scheme, pursuant to which, share options are granted to selected eligible participants, with a view to provide incentive to the option holders to participate and contribute the growth of the Group.

## Chairman's Statement

### MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the year, sales to the five largest customers amounted to approximately 36.1% of the Group's total sales for the year, in which the sales to the largest customer represented approximately 9.6% of the total sales for the year.

Purchases from the five largest suppliers amounted to approximately 50.2% of the total purchases for the year while total purchases from the largest supplier represented approximately 22.9% of the total purchases for the year.

To the best knowledge of the Directors, and save as disclosed above, none of the Directors, their associates or any shareholder who owned more than 5% of the Company's share capital had any interest in any of the Group's five largest customers and suppliers during the year.

### APPRECIATION

For and on behalf of the Board, I would like to express my sincere gratitude to our management and staff, as well as our shareholders, customers and suppliers, for their commitment and support extended to the Group in the past year.



*Chairman*

Hong Kong, 21st July, 2006

# Biographical Details of Directors and Senior Management

## DIRECTORS AND SENIOR MANAGEMENT

### Directors

#### *Executive Directors*

*Mr. Li Man Ching*, aged 47, is the Chairman of the Company and a co-founder of the Group. He is responsible for the business development and policy making of the Group, with primary focus on overseas marketing and sales promotion. He has over 20 years' experience in the textiles industry in the areas of sales and production.

*Ms. Li Mei Lin*, aged 46, is the Deputy Chairman of the Company and a co-founder of the Group. She is responsible for the administration and management of the Group. She has over ten years' experience in the textiles industry. Ms. Li Mei Lin is the younger sister of Mr. Li Man Ching.

*Mr. Li Man Shun*, aged 42, is a co-founder of the Group. He is responsible for the production facilities in the PRC, overseeing both the dyeing and the knitting operation. He has over 15 years' experience in the textiles industry in the area of production. Mr. Li Man Shun a younger brother of Mr. Li Man Ching.

*Mr. Fung Chi Ki*, aged 43, is the Group's chief financial officer and company secretary of the Company. He is member of the Hong Kong Certified Public Accountants and a fellow of the Chartered Institute of Management Accountant. He has over thirteen years' experience in accounting and finance before he joined the Group in July 1998.

#### *Independent Non-executive Directors*

*Mr. Tsui Wing Yin*, aged 45, is a solicitor in Hong Kong. He graduated from the University of Essex in the United Kingdom with a Bachelor of Laws degree with honours. He has over fourteen years' legal experience in Hong Kong.

*Mr. Lau Chung Man*, Louis, aged 47, is an executive director of a company listed on The Stock Exchange of Hong Kong Limited. He holds a Bachelor's degree in Commerce and Administration from Victoria University of Wellington in New Zealand. He is a member of the New Zealand Society of Accountants and member of the Hong Kong Institute of Certified Public Accountants.

*Mr. So Kin Wah*, age 47, holds a master degree in science in construction project management from The University of Hong Kong, and is member of Royal Institution of Chartered Surveyors, The Hong Kong Institute of Surveyors, the Chartered Institute of Building, and The Chartered Institute of Arbitrators.

# Biographical Details of Directors and Senior Management

## DIRECTORS AND SENIOR MANAGEMENT (continued)

### Management

*Mr. Kwan Chui Shui*, aged 34, is the general sales manager of the Group. He has over ten years' experience in the textiles industry and is responsible for the purchasing function and dyeing operation of the Group. He joined the Group in 1991 when it was established.

*Mr. Tse Chi Sing*, aged 46, is the production manager responsible for the fabric setting operations at the Group's production facilities in the PRC. He has over 15 years' experience in fabric setting. He joined the Group in April 2001.

*Mr. Leung Ho Yin*, aged 47, is the production manager responsible for yarn dyeing at the Group production facilities in the PRC. He has over 15 years' experience in this field. He joined the Group in November 2002.

# Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31st March, 2006.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacture and sale of knitted fabrics and dyed yarns, provision of dyeing, bleaching, setting and finishing services and garment products.

## RESULTS

The results of the Group for the year ended 31st March, 2006 are set out in the consolidated income statement on page 20 of the annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st March, 2006, the Company's reserves available for distribution consisted of contributed surplus of HK\$153,400,000 (2005: HK\$153,400,000) and retained profits of HK\$8,810,000 (2005: HK\$8,878,000).

## DIRECTORS

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

### **Executive directors:**

Mr. Li Man Ching (*Chairman*)

Ms. Li Mei Lin (*Deputy Chairman and Chief Executive Officer*)

Mr. Li Man Shun

Mr. Fung Chi Ki

### **Independent non-executive directors:**

Mr. Lau Chung Man, Louis

Mr. Tsui Wing Yin

Mr. So Kin Wah

## Directors' Report

In accordance with Article 110(A) of the Company's Bye-laws, Messrs. Li Man Shun, Lau Chung Man, Louis and Tsui Wing Yin shall retire at the forthcoming annual general meeting. Mr. Li Man Shun and Mr. Tsui Wing Yin shall offer themselves for re-election, and Mr. Lau Chung Man, Louis, after serving the Company for more than nine years, decided not to offer himself for re-election.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

### DIRECTORS' SERVICE CONTRACTS

Mr. Li Man Shun and Mr. Tsui Wing Yin have entered into service contracts with the Company for the term commencing from 1st March, 2004 and 1st March, 1999, respectively. All their appointments shall continue thereafter, subject to termination by either party giving at least three months' prior notice to the other party.

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## Directors' Report

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31st March, 2006, the interests of the directors, the chief executives and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they have taken or are deemed 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 which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities (the "Listing Rules") to be notified to the Company and the Stock Exchange, were as follows:

#### Long position

Name of director	Number of ordinary shares		Interest in underlying shares pursuant to share option	Aggregated interest	Percentage of the issued share capital of the Company
	Personal interests	Other interests <i>(note)</i>			
Ms. Li Mei Lin	-	164,403,000	1,500,000	165,903,000	42.7%
Mr. Li Man Shun	-	164,403,000	-	164,403,000	42.3%
Mr. Fung Chi Ki	-	-	1,933,200	1,933,200	0.5%

*Note:* Ms. Li Mei Lin and Mr. Li Man Shun beneficially own 30,600 shares and 29,700 shares, respectively, in Rayten Limited, representing, 34% and 33% cent, respectively, of the issued share capital of Rayten Limited, which in turn owns 164,403,000 shares of HK\$0.10 each in the Company.

Other than disclosed above, none of the directors, chief executives, nor their associates had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporation as at 31st March, 2006.

## Directors' Report

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

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

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option holdings described in note 24 to the consolidated financial statements, at no time during the year was the Company nor any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to section 336 of SFO discloses no person as having a notifiable interests or short positions in the issued capital of the Company as at 31st March, 2006.

### SHARE OPTION SCHEME

Details of the Company's share options scheme are set out in note 24 to the consolidated financial statements.

### PRE-EMPTIVE RIGHTS

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

# Directors' Report

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March, 2006 with the Code on Corporate Government Practices as set out in Appendix 14 of the Listing Rules on the Stock Exchange, except for the deviation from code provision of A.4.1, pursuant to which, non-executive directors should be appointed for a specific term and subject to re-election. The Company's independent non-executive directors are not appointed for a specific terms but are subjected to retirement by rotation under the Company's Bye-laws, so that every independent non-executive directors shall retire at least once every three years.

The Company has adopted the Model Code for Securities Transactions by Directors of listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules on the Stock Exchange as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code.

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 of its independent non-executive directors are independent.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st March, 2006.

## 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



CHAIRMAN

Hong Kong, 21st July, 2006

# Corporate Governance Report

## CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the “**Listing Rules**”) on the Stock Exchange for the year ended 31st March, 2006, except for the deviation from code provision of A.4.1, pursuant to which, non-executive directors should be appointed for a specific term and subject to re-election. The company’s independent non-executive Directors (as defined below) are not appointed for a specific terms but are subjected to retirement by rotation under the Company’s Bye-laws, so that every independent non-executive Directors (as defined below) shall retire at least once every three years.

## DIRECTORS’ SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”), a code of conduct regarding securities transactions by directors. Having made specific enquiry of all Directors (as defined below), all Directors (as defined below) confirmed they have complied with the required standard set out in the Model Code.

## THE BOARD OF DIRECTORS

The board (the “**Board**”) of directors (the “**Directors**”) of the Company assumes responsibility for the management of the Group’s affairs, and concentrates on matters affecting the Group’s overall strategic policies, finances, shareholder interests and corporate governance. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

The Board comprises seven Directors including four executive Directors and three independent non-executive Directors.

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 of its independent non-executive directors are independent. Each of the independent non-executive Directors has professional, financial or accounting qualifications.

# Corporate Governance Report

The Directors of the Group during the year and up to the date of this report were:

*Executive Directors:*

Mr. Li Man Ching (*Chairman*)

Ms. Li Mei Lin (*Deputy Chairman and Chief Executive Officer*)

Mr. Li Man Shun

Mr. Fung Chi Ki

*Independent non-executive Directors:*

Mr. Lau Chung Man, Louis

Mr. Tsui Wing Yin

Mr. So Kin Wah

The biographical details of the Directors are set out on page 7 of this annual report.

The Board had met eleven times this year to review the financial performance of the Group, major issues and also on the other occasions when the board decision were required. The views of directors were actively solicited if they were unable to attend the meeting of the Board, and the table below sets out the attendance record of each Director:

<b>Name of Directors</b>	<b>Attendance</b>
<i>Executive Directors</i>	
Mr. Li Man Ching ( <i>Chairman</i> )	8/11
Ms. Li Mei Lin ( <i>Deputy Chairman and Chief Executive Officer</i> )	11/11
Mr. Li Man Shun	11/11
Mr. Fung Chi Ki	11/11
<i>Independent non-executive Directors</i>	
Mr. Lau Chung Man, Louis	8/11
Mr. Tsui Wing Yin	6/11
Mr. So Kin Wah	8/11

# Corporate Governance Report

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The Chairman bears primary responsibility for the functioning of the Board, by ensuring its effective operation, while the Chief Executive Officer bears executive responsibility for the Group's business, the management of the day-to-day operations of the Group.

## AUDIT COMMITTEE

The Company had established a audit committee whose terms of reference was formulated in accordance with the requirements of the Stock Exchange and its current members comprise of:

Lau Chung Man, Louis (*Chairman*)

Tsui Wing Yin

So Kin Wah

All the members of the audit committee are independent non-executive directors. The composition and members of the audit committee complies with the requirements of the listing Rule 3.21.

The Audit Committee's primary responsibilities include reviewing the reporting of financial and other information to shareholders, the system of the internal controls, risk management and the effectiveness and objectivity of the audit process. The audit committee had met three time this years, and all the members had attended the meeting.

## REMUNERATION COMMITTEE

The remuneration committee was established in 2005 with specific terms of reference which deal clearly with its authority and duties, the current members include Mr. Lau Chung Man, Louis, the chairman, Mr. So Kin Wah and Ms Li Mei Lin. The remuneration committee had met two times this year to review the directors' remuneration and give its recommendation to the board for consideration. All members of the committee had attended the meetings

# Corporate Governance Report

## 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 reviewed 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. During the year, no candidates be nominated.

## AUDITORS' REMUNERATION

The auditor of the Group is Deloitte Touche Tohmatsu. They are primarily responsible for providing audit services in connection with the annual consolidated financial statements. During the year, the audit fee including fee for interim review charge to the accounts this year is HK\$1,080,000. Deloitte Touche Tohmatsu are also the tax advisers of the Group, the services charges for the year is HK\$198,000.

## RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the accounts which were prepared in accordance with statutory requirements and applicable accounting standards.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Report of the Auditor on page 18 to page 19 of this annual report.

During the year, the Board has reviewed the effectiveness of the internal control system of the Group. The review covers all material controls, including financial, operational and compliance controls and risk management functions of the Group.

## Auditors' Report



TO THE MEMBERS OF  
KWONG HING INTERNATIONAL HOLDINGS (BERMUDA) LIMITED  
廣興國際控股有限公司  
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Kwong Hing International Holdings (Bermuda) Limited (the "Company") and its subsidiaries (the "Group") from pages 20 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements 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.

### BASIS OF OPINION

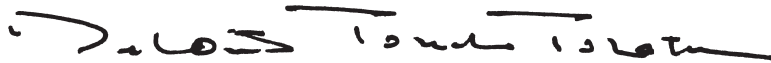
We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

## Auditors' Report

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our 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 31st March, 2006 and of the loss and cash flows of the Group for the year then ended 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  
21st July, 2006

# Consolidated Income Statement

For the year ended 31st March, 2006

	NOTES	2006 HK\$'000	2005 HK\$'000
Turnover	7	405,347	528,537
Cost of sales		(387,412)	(473,949)
Gross profit		17,935	54,588
Other income		3,103	713
Selling expenses		(10,520)	(13,826)
Administrative expenses		(27,577)	(37,280)
Finance costs	9	(758)	(641)
(Loss) profit before taxation		(17,817)	3,554
Income tax credit (expense)	10	2,818	(551)
(Loss) profit for the year	11	(14,999)	3,003
Attributable to:			
Equity holders of the Company		(14,662)	1,300
Minority shareholders		(337)	1,703
		(14,999)	3,003
(Loss) earnings per share – basic	13	(3.8) HK cents	0.3 HK cents

At 31st March, 2006

## Consolidated Balance Sheet

	NOTES	2006 HK\$'000	2005 HK\$'000 (restated)
<b>Non-current assets</b>			
Property, plant and equipment	14	127,166	144,575
Prepaid lease payments	15	2,100	2,158
Held-to-maturity investments	16	15,600	15,600
		<b>144,866</b>	<b>162,333</b>
<b>Current assets</b>			
Inventories	17	141,356	168,330
Trade and other receivables	18	75,868	99,087
Bills receivable	19	1,538	1,167
Prepaid lease payments	15	58	58
Pledged bank deposits	19 & 28	4,000	4,000
Bank balances and cash	19	74,409	38,132
		<b>297,229</b>	<b>310,774</b>
<b>Current liabilities</b>			
Trade and other payables	20	37,368	49,205
Bills payable – secured	19	14,134	15,932
Taxation payable		3,374	3,379
Obligations under finance leases – due within one year	21	3,085	2,283
		<b>57,961</b>	<b>70,799</b>
<b>Net current assets</b>			
		<b>239,268</b>	<b>239,975</b>
		<b>384,134</b>	<b>402,308</b>
<b>Capital and reserves</b>			
Share capital	22	38,857	38,857
Reserves		340,717	354,318
Equity attributable to equity holders of the Company		379,574	393,175
Minority interests		–	337
<b>Total equity</b>			
		<b>379,574</b>	<b>393,512</b>
<b>Non-current liabilities</b>			
Obligations under finance leases – due after one year	21	2,467	3,885
Deferred tax liabilities	23	2,093	4,911
		<b>4,560</b>	<b>8,796</b>
		<b>384,134</b>	<b>402,308</b>

The financial statements from pages 20 to 65 were approved and authorised for issue by the Board of Directors on 21st July, 2006 and are signed on its behalf by:



CHAIRMAN



DEPUTY CHAIRMAN & CHIEF EXECUTIVE OFFICER

## Consolidated Statement of Changes in Equity For the year ended 31st March, 2006

	Attributable equity holders of the Company							
	Share capital	Share premium	Contributed surplus	Translation reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2004	38,857	130,452	122,652	(278)	100,192	391,875	3,431	395,306
Profit for the year, representing total recognised income for the year	-	-	-	-	1,300	1,300	1,703	3,003
Dividend paid to minority shareholders	-	-	-	-	-	-	(4,800)	(4,800)
Disposal of a subsidiary	-	-	-	-	-	-	(497)	(497)
Contribution from minority shareholders of a subsidiary	-	-	-	-	-	-	500	500
At 31st March, 2005	38,857	130,452	122,652	(278)	101,492	393,175	337	393,512
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	1,061	-	1,061	-	1,061
Loss for the year	-	-	-	-	(14,662)	(14,662)	(337)	(14,999)
Total recognised income and expense for the year	-	-	-	1,061	(14,662)	(13,601)	(337)	(13,938)
At 31st March, 2006	38,857	130,452	122,652	783	86,830	379,574	-	379,574

The contributed surplus of the Group represents the credit arising from a previous capital reduction exercise.

## Consolidated Cash Flow Statement

NOTE	2006 HK\$'000	2005 HK\$'000 (restated)
<b>OPERATING ACTIVITIES</b>		
(Loss) profit before taxation	(17,817)	3,554
Adjustments for:		
Amortisation of goodwill	-	1,213
Amortisation of textile quota entitlements	-	12,086
Depreciation of property, plant and equipment	25,254	23,412
Finance costs	758	641
Gain on disposal of property, plant and equipment	(1,236)	-
Impairment loss on goodwill	-	1,870
Impairment loss on trade and other receivables	166	2,654
Interest income	(919)	(81)
Realised and unrealised holding gain on trading securities	-	(90)
Release of prepaid lease payments	58	58
Operating cash flows before movements in working capital	6,264	45,317
Decrease (increase) in inventories	26,974	(5,690)
Decrease in trade and other receivables	23,053	5,210
(Increase) decrease in bills receivable	(371)	6,303
(Decrease) increase in trade and other payables	(11,837)	1,796
Decrease in bills payable	(1,798)	(6,613)
Cash generated from operations	42,285	46,323
Income taxes paid	(5)	(188)
Interest paid	(758)	(641)
Interest received	919	81
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>42,441</b>	<b>45,575</b>

# Consolidated Cash Flow Statement

For the year ended 31st March, 2006

	NOTE	2006 HK\$'000	2005 HK\$'000 (restated)
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(4,468)	(17,453)
Proceeds from disposal of property, plant and equipment		1,527	–
Purchase of held-to-maturity investments		–	(15,600)
Increase in pledged bank deposits		–	(312)
Proceeds from disposal of trading securities		–	8,651
Disposal of subsidiaries	25	–	5,426
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(2,941)</b>	<b>(19,288)</b>
<b>FINANCING ACTIVITIES</b>			
Repayments of obligations under finance leases		(2,816)	(832)
Repayment of a bank loan		–	(6,202)
Dividend paid to minority shareholders		–	(4,800)
Contribution from minority shareholder of a subsidiary		–	500
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(2,816)</b>	<b>(11,334)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>36,684</b>	<b>14,953</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>38,132</b>	<b>23,179</b>
<b>EFFECT ON FOREIGN EXCHANGE RATE CHANGES</b>		<b>(407)</b>	<b>–</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>		<b>74,409</b>	<b>38,132</b>

## 1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda 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 in the annual report.

The Company is an investment holding company. The principal activities of the Group are the manufacture and sale of knitted fabrics and dyed yarns, the provision of dyeing, bleaching, setting and finishing service and garment products.

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

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has had no material effect on how the results for the current and prior accounting years are presented. Accordingly, no prior year adjustment has been required.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### Share-based Payments

HKFRS 2 “Share-based Payment” requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of directors’ and employees’ share options of the Company. Previously, the Group did not recognise the financial impact of the share options granted by the Company until they were exercised.

The Group has applied HKFRS 2 to share options granted on or after 1st April, 2005 and had taken advantage of the transitional provisions set out in HKFRS 2. In relation to share options granted on or before 7th November, 2002 and share options granted after 7th November, 2002 and vested before 1st April, 2005, the Group did not recognise and expense those share options. However, in relation to share options granted after 7th November, 2002 and vested on or after 1st April, 2005, such share options should be accounted for retrospectively in accordance with HKFRS 2. The application of HKFRS 2 has no material impact to the results of the Group in the current and prior years.

### Financial Instruments

In the current year, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### Financial Instruments (continued)

#### *Financial assets and financial liabilities*

From 1st April, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The application of HKAS 39 has had no material impact on the recognition and measurement of financial assets and financial liabilities of the Group.

#### *Derecognition*

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets on or after 1st April, 2005. As a result, the Group's bill receivables discounted with full recourse of amounting HK\$4,281,000 which were derecognised prior to 1st April, 2005 have not been restated. (See Note 3 for the financial impact). As there were no bills discounted with full recourse at 31st March, 2006, there is no financial impact to the Group for the current year.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

The Group has not early adopted the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the results and the financial positions of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net investment in a foreign operation <sup>2</sup>
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>
HKAS 39 (Amendment)	The fair value option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts <sup>2</sup>
HKFRS 6	Exploration for and evaluation of mineral resources <sup>2</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease <sup>2</sup>
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment <sup>3</sup>

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### Owner-occupied Leasehold Interest in Land (continued)

HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>5</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st December, 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1st June, 2006.

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the application of the new HKFRSs as at 31st March, 2005 are summarised below:

	As at 31st March, 2005 (originally stated) HK\$'000	Effect of HKAS 17 HK\$'000	As at 31st March, 2005 (restated) HK\$'000
<b>Balance sheet items</b>			
Property, plant and equipment	146,791	(2,216)	144,575
Prepaid lease payments	–	2,216	2,216
Total effect on assets and liabilities	<u>146,791</u>	<u>–</u>	<u>146,791</u>

The application of the new HKFRSs has no effect to the Group's equity as at 1st April, 2004.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and 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 and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

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

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 inter-company transactions and balances within the Group 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.

### **Revenue recognition**

Sales of goods are measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Revenue recognition (continued)

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

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 assets' net carrying amount.

##### Property, plant and equipment

Construction in progress is stated at cost less accumulated impairment losses. No depreciation is provided on construction in progress until the construction is completed and the assets are ready for intended use. Cost of completed construction are transferred to the appropriate categories of 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 property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method.

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 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.

##### Prepaid lease payments

The payments made on the acquisition of land use right are accounted for as an operating leases and are carried at cost and amortised on a straight-line basis over the lease term.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

##### **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.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the leases or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated 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.

##### **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.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial instruments (continued)

###### *Financial assets*

The Group's financial assets are classified as held-to-maturity investments and loans and receivables. The accounting policies adopted in respect of each category of financial assets are set out below.

###### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured 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 estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the 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.

###### *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 and other receivables, bills receivable, pledged bank deposits 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.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial instruments (continued)

###### *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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

###### *Financial liabilities*

Financial liabilities including trade and other payables and bills payable 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.

###### *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.

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **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.

##### **Borrowing costs**

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

##### **Retirement benefits costs**

Payments to defined contribution retirement benefit plan, including state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as an expense as they fall due.

##### **Share-based payment transactions**

###### ***Share options granted to employees of the Group after 1st April, 2005***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (the "Share Option Reserve").

At the time when the share options are exercised, the amount previously recognised in Share Option Reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in Share Option Reserve will be transferred to retained profits.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Share-based payment transactions (continued)

###### *Share options granted on or before 7th November, 2002 and granted after 7th November, 2002 but vested before 1st April, 2005*

By applying the transitional provision of HKFRS 2, the financial impact of share options granted is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company 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 by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

##### 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.

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 the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Taxation (continued)

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

The carrying amount of deferred tax assets 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 is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

##### 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 that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Foreign currencies (continued)

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 Company (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.

#### 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the consolidated financial statements are disclosed below:

##### Depreciation

The Group's carrying amount of property, plant and equipment (other than construction in progress) as at 31st March, 2006 was approximately HK\$127,166,000. The Group depreciates the manufacturing buildings and related improvements on a straight line basis over the shorter of the term of the lease or their useful lives. The Group depreciates the plant and machinery on a straight line basis over the estimated useful life, commencing from the date the plant and equipment is placed into productive use. The estimated useful life of the plant and equipment for productive use reflects the directors' estimate of the number of years that the Group intends to derive future economic benefits from the use of the property, plant and equipment.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Allowance on bad and doubtful debts

Note 4 describes that trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. An impairment losses is recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether there is objective evidence of impairment, the Group takes into consideration the estimation of future cash flows. In case where the actual cash flows generated are less than expected, a material impairment loss may arise.

### Allowance for inventories

Management reviews the net realizable values and/or age of inventories and makes allowance for obsolete and slow moving inventory items identified with reference to existing market environment, the sales performance in previous years and estimated market value. A specific allowance for inventories is made if the estimated market value of the inventories is lower than its carrying value.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include held-to-maturity investments, trade and other receivables, bills receivable, trade and other payables, bills payable, pledged bank deposits and bank balances and cash. The risks associated with 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.

### Fair value interest rate risk

The Group is exposed to fair value interest rate risk through the impact of rate changes on interest bearing financial assets. Interest-bearing financial assets are mainly balances with banks which are all short term in nature. Therefore, any further variations in interest rates will not have a significant impact on the results of the Group.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, management of the Group is 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, management reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

The credit risk on held-to-maturity investments is minimal as the cost of investment is guaranteed to be fully repaid by banks upon their maturity.

## 7. TURNOVER

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances to outside customers during the year and is analysed as follows.

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Manufacture and sale of knitted fabric and dyed yarns	388,711	435,001
Manufacturing and trading of garment products	16,636	93,536
	<u>405,347</u>	<u>528,537</u>

## 8. SEGMENT INFORMATION

### Business segment

For management purpose, the Group is currently organised into two business activities: (i) manufacture and sale of knitted fabric and dyed yarns; and (ii) manufacturing and trading of garment products. These activities are the basis on which the Group reports its primary segment information.

Segment information about these activities is presented below:

For the year ended 31st March, 2006

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$'000</i>	Manufacturing and trading of garment products <i>HK\$'000</i>	Eliminated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>TURNOVER</b>				
External sales	388,711	16,636	-	405,347
Inter-segment sales	7,000	-	(7,000)	-
Total turnover	<u>395,711</u>	<u>16,636</u>	<u>(7,000)</u>	<u>405,347</u>
<b>RESULTS</b>				
Segment results	<u>(14,294)</u>	<u>(4,693)</u>		(18,987)
Other income				3,103
Unallocated corporate expenses				(1,175)
Finance costs				<u>(758)</u>
Loss before taxation				(17,817)
Income tax credit				<u>2,818</u>
Loss for the year				<u>(14,999)</u>

\* Inter-segment sales were charged at terms determined and agreed between the group companies.

## 8. SEGMENT INFORMATION (continued)

### Business segment (continued)

For the year ended 31st March, 2005

	Manufacture and sale of knitted fabric and dyed yarns HK\$'000	Manufacturing and trading of garment products HK\$'000	Eliminated HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>				
External sales	435,001	93,536	–	528,537
Inter-segment sales	18,821	–	(18,821)	–
Total turnover	<u>453,822</u>	<u>93,536</u>	<u>(18,821)</u>	<u>528,537</u>
<b>RESULTS</b>				
Segment results	<u>5,975</u>	<u>1,663</u>		7,638
Other income				713
Amortisation of goodwill	–	(1,213)		(1,213)
Impairment loss on goodwill	–	(1,870)		(1,870)
Unallocated corporate expenses				(1,073)
Finance costs				<u>(641)</u>
Profit before taxation				3,554
Income tax expense				<u>(551)</u>
Profit for the year				<u>3,003</u>

\* Inter-segment sales were charged at terms determined and agreed between the group companies.

## 8. SEGMENT INFORMATION (continued)

## BALANCE SHEET

At 31st March, 2006

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$'000</i>	Manufacturing and trading of garment products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	354,241	9,445	363,686
Unallocated corporate assets			78,409
Consolidated total assets			<u>442,095</u>
<b>LIABILITIES</b>			
Segment liabilities	52,112	1,889	54,001
Unallocated corporate liabilities			8,520
Consolidated total liabilities			<u>62,521</u>

## OTHER INFORMATION

For the year ended 31st March, 2006

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$'000</i>	Manufacturing and trading of garment products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	5,614	1,054	6,668
Depreciation of property, plant and equipment	<u>24,586</u>	<u>668</u>	<u>25,254</u>

## 8. SEGMENT INFORMATION (continued)

### BALANCE SHEET (continued)

At 31st March, 2005

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$'000</i>	Manufacturing and trading of garment products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	417,590	13,385	430,975
Unallocated corporate assets			42,132
Consolidated total assets			<u>473,107</u>
<b>LIABILITIES</b>			
Segment liabilities	64,273	4,177	68,450
Unallocated corporate liabilities			11,145
Consolidated total liabilities			<u>79,595</u>

### OTHER INFORMATION

For the year ended 31st March, 2005

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$'000</i>	Manufacturing and trading of garment products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	19,696	4,757	24,453
Depreciation of property, plant and equipment	23,046	366	23,412
Amortisation of textile quota entitlements	–	12,086	12,086

## 8. SEGMENT INFORMATION (continued)

### Geographical segments

An analysis of the Group's turnover by geographical market, irrespective of the origin of the goods and services, is presented below:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
United States of America	25,994	120,783
The People's Republic of China (the "PRC") including Hong Kong	<u>379,353</u>	<u>407,754</u>
	<u>405,347</u>	<u>528,537</u>

Substantially all the carrying amount of segment assets at 31st March, 2005 and 2006 and capital additions for the year ended 31st March, 2005 and 2006 are located in the PRC, including Hong Kong. Accordingly, no analysis of the Group's carrying amount of segment assets and capital additions by geographical area is presented.

## 9. FINANCE COSTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	389	568
Finance leases	<u>369</u>	<u>73</u>
	<u>758</u>	<u>641</u>

## 10. INCOME TAX CREDIT (EXPENSE)

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong Profits Tax:		
Current year	-	(320)
Other jurisdictions	-	(223)
	-	(543)
Deferred taxation ( <i>note 23</i> )		
Current year	2,818	(8)
	2,818	(551)

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit. No provision for Hong Kong profits Tax has been made as the Group has incurred tax losses for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The income tax (credit) expense for the year can be reconciled to the (loss) profit per the consolidated income statement as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
(Loss) profit before taxation	(17,817)	3,554
Tax at the domestic income tax rate of 17.5%	(3,118)	622
Tax effect of expenses that are not deductible in determining taxable profit	239	1,065
Tax effect of income that is not taxable in determining taxable profit	(475)	(116)
Utilisation of tax losses previously not recognised	(170)	(43)
Tax effect of tax losses not recognised	1,095	1,091
Effect of different tax rate of subsidiaries operating in other jurisdictions	(389)	(2,068)
Income tax (credit) expense for the year	(2,818)	551

Details of deferred taxation are set out in note 23.

## 11. (LOSS) PROFIT FOR THE YEAR

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
(Loss) profit for the year has been arrived at after charging:		
Staff costs, including directors' remuneration:		
– Salaries and other benefits	37,365	34,494
– Retirement benefit scheme contributions	947	498
Total staff costs	<u>38,312</u>	<u>34,992</u>
Auditors' remuneration	900	720
Depreciation of property, plant and equipment	25,254	23,412
Release of prepaid lease payments	58	58
Amortisation of goodwill, included in administrative expenses	–	1,213
Amortisation of textile quota entitlements, included in cost of sales	–	12,086
Impairment loss on trade and other receivables	166	2,654
Impairment loss recognised in respect of goodwill, included in administrative expenses	–	1,870
and after crediting:		
Gain on disposal of property, plant and equipment	1,236	–
Interest income from banks	919	81
Interest income from held-to-maturity investments	294	–
Realised and unrealised holding gain on trading securities	<u>–</u>	<u>90</u>

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### Directors

The emoluments paid or payable to each of the seven (2005: eight) directors were as follows:

	Li Man Ching*	Li Mei Lin*	Li Man Shun*	Fung Chi Ki*	Lau Chung Man, Louis**	Tsui Wing Yin**	So Kin Wah**	2006 Total	2005 Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Fees	-	-	-	-	100	100	100	300	265
Salaries and other benefits	820	1,110	1,244	700	-	-	-	3,874	3,777
Retirement benefits schemes contributions	12	16	-	12	-	-	-	40	43
<b>Total emoluments</b>	<b>832</b>	<b>1,126</b>	<b>1,244</b>	<b>712</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>4,214</b>	<b>4,085</b>

\* Being executive director

\*\* Being independent non-executive director

### Employees

Of the five individuals with highest emoluments in the Group, four (2005: four) were directors of the Company, details of whose emoluments are included in the disclosures set out above. The emoluments of the remaining individual were as follows:

	2006	2005
	HK\$'000	HK\$'000
Salaries and other benefits	656	817
Retirement benefit scheme contributions	12	7
	<b>668</b>	<b>824</b>

## 13. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to the equity holders of the Company for the year is based on the loss of HK\$14,662,000 (2005: profit of HK\$1,300,000) attributable to the equity holders of the Company and on 388,573,200 ordinary shares of the Company in issue during the year.

No diluted loss (2005: earnings) per share for the year ended 31st March, 2006 and 2005 has been presented because the exercise price of the Company's options was higher than the average market price per share.

## 14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK\$'000	Buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST						
At 1st April, 2004, as original stated	3,112	21,087	246,502	25,538	14,997	311,236
Adoption of HKAS 17	-	(2,916)	-	-	-	(2,916)
At 1st April, 2004, as restated	3,112	18,171	246,502	25,538	14,997	308,320
Additions	5,811	-	12,668	5,559	415	24,453
Transfer	(8,842)	-	-	8,842	-	-
Disposal of subsidiaries	-	-	-	(643)	(1,870)	(2,513)
Write-off	-	-	-	-	(175)	(175)
At 31st March, 2005	81	18,171	259,170	39,296	13,367	330,085
Exchange realignment	-	-	2,487	101	88	2,676
Additions	-	-	5,478	898	292	6,668
Transfer	(81)	-	81	-	-	-
Disposals	-	-	(4,007)	(412)	(2,310)	(6,729)
At 31st March, 2006	-	18,171	263,209	39,883	11,437	332,700
DEPRECIATION						
At 1st April, 2004, as original stated	-	3,793	135,996	14,654	10,143	164,586
Adoption of HKAS 17	-	(642)	-	-	-	(642)
At 1st April, 2004, as restated	-	3,151	135,996	14,654	10,143	163,944
Provided for the year	-	364	16,587	4,493	1,968	23,412
Eliminated on disposal of subsidiaries	-	-	-	(607)	(1,064)	(1,671)
Eliminated on write-off	-	-	-	-	(175)	(175)
At 31st March, 2005	-	3,515	152,583	18,540	10,872	185,510
Exchange realignment	-	-	1,081	60	67	1,208
Provided for the year	-	364	17,383	5,806	1,701	25,254
Eliminated on disposals	-	-	(4,004)	(201)	(2,233)	(6,438)
At 31st March, 2006	-	3,879	167,043	24,205	10,407	205,534
CARRYING VALUES						
At 31st March, 2006	-	14,292	96,166	15,678	1,030	127,166
At 31st March, 2005	81	14,656	106,587	20,756	2,495	144,575

#### 14. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rate per annum:

Buildings	Over the estimated useful lives of 50 years or the period of the relevant leases or land use rights, if shorter
Plant and machinery	6 – 10%
Furniture, fixtures and equipment	20%
Motor vehicles	20 – 30%

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

The carrying value of plant and machinery includes an amount of approximately HK\$7,872,000 (2005: HK\$5,771,000) in respect of assets held under finance leases.

#### 15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent leasehold interest in land in the PRC held under medium-term lease and are analysed for reporting purposes as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current asset	2,100	2,158
Current asset	58	58
	<u>2,158</u>	<u>2,216</u>

## 16. HELD-TO-MATURITY INVESTMENTS

	2006 & 2005 <i>HK\$'000</i>
Held-to-maturity investments	
– unlisted debt securities	<u>15,600</u>

Held-to-maturity debt securities are measured at amortised cost less any impairment losses. They will be matured in 2009 with guaranteed full repayment of investment cost plus the contractual interest rates which are carried at guaranteed coupons totalling approximate 10% of the initial offer price over the investment period. The effective interest rate is 1.9% per annum.

The potential return of the investments is linked to the performance of the Dow Jones Global Titans 50 index and a basket of shares, which is considered as an embedded derivative that is not closely related to the host debt contract. As at 1st April, 2005 and 31st March, 2006, the fair value of the embedded derivative is negligible.

The fair values of these investments have been determined by reference to the market prices that regularly quoted from a bank and the amounts as at 31st March, 2006 approximate their carrying amount.

## 17. INVENTORIES

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Raw materials	74,042	107,948
Work in progress	58,420	50,628
Finished goods	8,894	9,754
	<u>141,356</u>	<u>168,330</u>

## 18. TRADE AND OTHER RECEIVABLES

The credit terms given to the customers vary from cash on delivery to 120 days and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

Included in trade and other receivables of the Group are trade receivables of approximately HK\$68,702,000 (2005: HK\$94,603,000).

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

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
0 – 60 days	39,393	59,169
61 – 90 days	11,785	16,260
91 – 120 days	5,013	7,355
Over 120 days	12,511	11,819
	<u>68,702</u>	<u>94,603</u>

The fair values of the Group's trade and other receivables at 31st March, 2006 approximate their corresponding carrying amounts.

## 19. BILLS RECEIVABLE/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH/BILLS PAYABLE

Bills receivables and bills payables are aged within three months. Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry fixed interest rate of 3.88% (2005: 1.83%) per annum.

The fair values of these amounts at 31st March, 2006 approximate their corresponding carrying amounts.

**20. TRADE AND OTHER PAYABLES**

Included in trade and other payables of the Group are trade payables of approximately HK\$24,080,000 (2005: HK\$33,434,000).

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

	THE GROUP	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	14,869	28,363
61 – 90 days	2,751	3,245
Over 90 days	6,460	1,826
	<u>24,080</u>	<u>33,434</u>

The fair values of the Group's trade and other payables at 31st March, 2006 approximate their corresponding carrying amounts.

## 21. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under finance leases:				
within one year	3,346	2,453	3,085	2,283
In the second to fifth year	2,538	3,998	2,467	3,885
	<u>5,884</u>	<u>6,451</u>	<u>5,552</u>	<u>6,168</u>
Less: Future finance charges	(332)	(283)	N/A	N/A
Present value of lease obligations	<u>5,552</u>	<u>6,168</u>	<u>5,552</u>	<u>6,168</u>
Less: Amount due within one year shown under current liabilities			<u>(3,085)</u>	<u>(2,283)</u>
Amount due after one year			<u>2,467</u>	<u>3,885</u>

It is the Group's policy to lease certain of its plant and machinery using finance leases. The average lease term is three years. For the year ended 31st March, 2006, the average effective borrowing rate was 6.19% (2005: 3.08%). Interest rates are carried at 3 months HIBOR plus 2.25%. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The fair value of the Group's finance lease obligations, determined based on the present value of the estimated future cash flow discounted using the prevailing market value at the balance sheet date, approximates the carrying amount.

## 22. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each at 1st April, 2004, 31st March, 2005 and 31st March, 2006	5,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at 1st April, 2004, 31st March, 2005 and 31st March, 2006	388,573,200	38,857

## 23. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Textile quotas HK\$'000	Total HK\$'000
At 1st April, 2004	(9,868)	3,890	1,546	(4,432)
Credit (charge) to consolidated income statement for the year	1,442	(375)	(1,075)	(8)
Elimination on disposal of a subsidiary	–	–	(471)	(471)
At 31st March, 2005	(8,426)	3,515	–	(4,911)
Charge to consolidated income statement for the year	2,083	735	–	2,818
At 31st March, 2006	(6,343)	4,250	–	(2,093)

### 23. DEFERRED TAX LIABILITIES (continued)

At 31st March, 2006, the Group has unused tax losses of HK\$25,696,000 (2005: HK\$26,782,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$24,286,000 (2005: HK\$20,086,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$1,410,000 (2005: HK\$6,696,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

### 24. SHARE OPTION SCHEME

On 28th August, 2002, the Company adopted the existing share option scheme (the "Scheme") for the primary purpose to attract, retain and motivate talented employees, executive and non-executive directors and consultants of the Company or any subsidiaries or associated companies or such persons who from time to time that determined by the Board at its discretion as having contributed to the Group based on his/her performance and/or years of services, or it regarded as valuable resources and other relevant factors (the "Participants"), to strive for future developments and expansion of the Group. The Scheme will be ending on 27th August, 2012.

Under the Scheme, the board of directors of the Company may grant options to Participants to subscribe for shares in the Company at a price equal to the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a trading day; (ii) a price being the average of the closing prices of shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer date and (iii) the nominal value of a share, subject to a maximum of 38,664,000 shares, representing approximately 10%, of the issued share capital of the Company as at the date of adoption of Scheme.

The total number of shares which may be issued and to be issued upon exercise of all exercised and/or outstanding options granted each Participant shall not in aggregate exceed 1% of the relevant class of securities of the Company in issue in any 12 month period.

All options granted shall be accepted within 21 days and have taken effect when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company.

## 24. SHARE OPTION SCHEME (continued)

The following table discloses movements during both years in the scheme:

Category	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options				
				At 1.4.2004	Cancelled	At 31.3.2005	Cancelled	At 31.3.2006
1. Directors/former director								
Ms. Li Mei Lin	17.9.2003	17.9.2003 to 16.9.2006	1.62	1,500,000	-	1,500,000	-	1,500,000
Mr. Li Man Tak*	17.9.2003	17.9.2003 to 16.9.2006	1.62	1,500,000	(1,500,000)	-	-	-
Mr. Fung Chi Ki	2.11.2002	2.11.2002 to 1.11.2012	0.51	1,933,200	-	1,933,200	-	1,933,200
				<u>4,933,200</u>	<u>(1,500,000)</u>	<u>3,433,200</u>	<u>-</u>	<u>3,433,200</u>
2. Employees in aggregate	18.8.2003	1.3.2004 to 30.9.2006	1.67	3,865,000	(615,000)	3,250,000	(3,250,000)	-
	2.11.2002	2.11.2002 to 1.11.2012	0.51	15,465,600	-	15,465,600	(3,866,400)	11,599,200
				<u>19,330,600</u>	<u>(615,000)</u>	<u>18,715,600</u>	<u>(7,116,400)</u>	<u>11,599,200</u>
				<u>24,263,800</u>	<u>(2,115,000)</u>	<u>22,148,800</u>	<u>(7,116,400)</u>	<u>15,032,400</u>

\* Mr. Li Man Tak resigned as director on 31st May, 2004 and the share options held by Mr. Li Man Tak was cancelled on 14th July, 2004.

At 31st March, 2005 and 31st March, 2006, the total number of shares available for issue under the Company's share option scheme is 36,730,800, representing 9.5% of the issued capital of the Company.

## 25. DISPOSAL OF SUBSIDIARIES

On 27th October, 2004, the Group disposed of its entire equity interest in, and shareholder's loan with, Sweetime Ltd. Sweetime Ltd has a 70% direct interest in South Season Industrial Company Limited ("South Season"). Details of which are set out in the circular to the shareholders of the Company dated 19th November, 2004.

	2005 <i>HK\$'000</i>
<hr/>	
Net assets disposed of:	
Property, plant and equipment	842
Deferred tax assets	471
Goodwill	10,642
Textile quota entitlements	1,667
Trade and other receivables	12,074
Bank balances and cash	374
Trade and other payables	(17,839)
Taxation	(1,934)
	<hr/>
	6,297
Minority interests	(497)
	<hr/>
Total consideration	<u>5,800</u>
Satisfied by:	
Cash	<u>5,800</u>
Net cash inflow arising from disposal:	
Cash consideration	5,800
Bank balances and cash disposed of	(374)
	<hr/>
	<u>5,426</u>

The subsidiaries disposed of during the year ended 31st March, 2005 contributed HK\$69,565,000 to the Group's turnover and HK\$1,261,000 to the Group's profit before taxation for that year.

## 26. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK\$2,200,000 (2005: HK\$7,000,000).

## 27. CONTINGENT LIABILITIES

At 31st March, 2005, the Group had bills discounted with recourse of approximately HK\$4,281,000 (2006: Nil).

## 28. PLEDGE OF ASSETS

At 31st March, 2006, certain of the Group's buildings with an aggregate carrying value of approximately HK\$2,308,000 (2005: HK\$2,371,000), held-to-maturity investment of approximately HK\$7,800,000 (2005: HK\$7,800,000), and bank deposits of approximately HK\$4,000,000 (2005: HK\$4,000,000) were pledged to banks as security for general banking facilities granted to the Group.

## 29. CAPITAL COMMITMENTS

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Capital expenditures in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u>266</u>	<u>661</u>
Capital expenditures in respect of property, plant and equipment authorised but not contracted for	<u>5,500</u>	<u>10,763</u>

### 30. OPERATING LEASES

The Group made minimum lease payments of approximately HK\$4,553,000 (2005: HK\$2,143,000) under operating lease during the year in respect of rented premises.

At the balance sheet date, the Group has commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	1,457	2,623
In the second to fifth year inclusive	1,625	2,623
Over five years	2,346	2,582
	<u>5,428</u>	<u>7,828</u>

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases of factory premises are negotiated for an average term of 30 years. The yearly rentals are fixed for first 10-year period and will be escalated by 10% for every 10-year period thereafter. Leases of office premises are negotiated for an average term of 1 to 2 years with fixed rentals.

### 31. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes a fixed percentage of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the PRC subsidiary of the Group are members of a state-managed retirement benefit schemes operated by the PRC government. The subsidiary is required to contribute a fixed percentage of its qualifying staff's wages to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make specified contributions.

### 32. RELATED PARTY DISCLOSURES

Other than the emoluments paid to the directors of the Company, who are also considered as the key management of the Group, the Group has not entered into any other significant related parties transaction.

### 33. BALANCE SHEET OF THE COMPANY

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current asset			
Investment in subsidiaries	(i)	84,948	84,948
Current assets			
Amounts due from subsidiaries	(ii)	244,900	246,536
Other receivables		11	11
Bank balance		2,419	158
		247,330	246,705
Current liability			
Other payables		759	66
Net current assets		246,571	246,639
		331,519	331,587
Capital and reserves			
Share capital		38,857	38,857
Reserves	(iii)	292,662	292,730
Equity attributable to equity holders of the Company		331,519	331,587

### 33. BALANCE SHEET OF THE COMPANY (continued)

Notes:

(i) Investment in subsidiaries

	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	<u>84,948</u>	<u>84,948</u>

Details of the Company's subsidiaries as at 31st March, 2006 are set out in note 34.

(ii) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

(iii) Reserves

	Share premium account HK'000	Contributed surplus HK'000	Retained profits HK'000	Total HK\$'000
Balance at 1st April, 2004	130,452	153,400	8,384	292,236
Net profit for the year	<u>–</u>	<u>–</u>	<u>494</u>	<u>494</u>
Balance at 31st March 2005	130,452	153,400	8,878	292,730
Net loss for the year	<u>–</u>	<u>–</u>	<u>(68)</u>	<u>(68)</u>
Balance at 31st March, 2006	<u>130,452</u>	<u>153,400</u>	<u>8,810</u>	<u>292,662</u>

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries acquired and the nominal value of the Company's share issued for the acquisition at the time of a previous group reorganisation less amount utilized on bonus issue of shares plus the credit arising from the capital reduction in 2001.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

### 33. BALANCE SHEET OF THE COMPANY (continued)

Notes: (continued)

#### (iii) Reserves (continued)

- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

The Company's reserve available for distribution to shareholders as at 31st March, 2006 are represented by its contributed surplus and retained profits, totalling approximately HK\$162,210,000 (2005: HK\$162,278,000).

### 34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries of the Company as at 31st March, 2006 were as follows:

Name of subsidiary (Note d)	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company (Note a)	Principal activities
Dongguan Winscope Garment Manufacturing Co., Ltd. ("DG Winscope")	PRC	HK\$15,000,000 (Note c)	100%	Manufacturing of garment products
Gold Sleeve Limited	British Virgin Islands/ Hong Kong	US\$50,000	100%	Sale of garment
Kwong Hing Knitting Fabric Trading Co. Limited	Hong Kong	HK\$1,000,000	100%	Manufacture and sale of knitted fabric and dyed yarns
Kwong Tai Dyeing Co. Limited	Hong Kong	HK\$3,000,000	100%	Inactive
Nanhai Hengxing Dyeing Co., Ltd. ("Hengxing") (Note b)	PRC	HK\$139,764,700 (Note b)	100%	Provision of dyeing, bleaching, setting and finishing services

### 34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary (Note d)	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company (Note a)	Principal activities
Real Connection Limited	British Virgin Islands	US\$50,000	100%	Investment holding
Real Honour Enterprises Limited	British Virgin Islands/ PRC	US\$2	100%	Provision of dyeing, bleaching, setting and finishing services and provision of marketing services
Sinoplex Limited ("Sinoplex")	British Virgin Islands	US\$75	100%	Investment holding
Unite Might Investment Limited	Hong Kong	HK\$500,000	100%	Provision of administration services
Sano Macao Commercial Offshore Company Limited	Macau	MOP1,000,000	100%	Trading of knitted fabric and dyed yarns and garment
Sano Trading Ltd.	British Virgin Islands	US\$100	100%	Investment holding
Wincast Ltd.	British Virgin Islands	US\$1	100%	Investment holding
Winscope Limited	British Virgin Islands	US\$1	100%	Investment holding
KHI Trading Limited	USA	US\$1,000	100%	Trading of knitted fabric and dyed yarns and garment
Allwealth Pacific Limited	British Virgin Islands/ PRC	US\$100	100%	Provision of dyeing, bleaching, setting and finishing services

### 34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

*Note:*

- a. The Company directly held the interests in Sinoplex. All the interests shown above are indirectly held.
- b. The capital contributed by the Group which has been verified amounted to approximately HK\$118,414,000.
- c. The capital contributed by the Group which has been verified amounted to approximately HK\$9,500,000.
- d. Other than Hengxing and DG Winscope, which are wholly foreign owned enterprises established in the PRC, all other companies are limited liability companies incorporated in the respective jurisdiction.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

# Financial Summary

## RESULTS

	Year ended 31st March,				
	2002	2003	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	336,032	353,326	540,167	528,537	405,347
(Loss) profit before taxation	(21,744)	23,179	35,158	3,554	(17,817)
Income tax expense	1,441	(999)	(1,621)	(551)	2,818
(Loss) profit for the year	(20,303)	22,180	33,537	3,003	(14,999)
Attributable to:					
Equity holders of the company	(20,303)	22,180	33,629	1,300	(14,662)
Minority shareholders	–	–	(92)	1,703	(337)
	(20,303)	22,180	33,537	3,003	(14,999)

## ASSETS AND LIABILITIES

	As at 31st March,				
	2002	2003	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	422,836	455,952	500,237	473,107	442,095
Total liabilities	(60,578)	(76,154)	(104,931)	(79,595)	(62,521)
	362,258	379,798	395,306	393,512	379,574
Attributable to:					
Equity holders of the company	362,258	379,798	391,875	393,175	379,574
Minority shareholders	–	–	3,431	337	–
	362,258	379,798	395,306	393,512	379,574

*Note:* The application of the new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005 did not result in material changes to the Group's result for the four years ended 31st March, 2005 and the summary of assets and liabilities for the Group as at 31st March, 2002, 31st March, 2003, 31st March, 2004 and 31st March, 2005.