



Annual Report 2004



Eagle Nice (International) Holdings Limited
鷹美(國際)控股有限公司*
(incorporated in the Cayman Islands with limited liability)

** For identification purpose only*

CONTENTS

Corporate Information	2
Chairman's Statement	4
Management Discussion and Analysis	8
Directors and Senior Management Profile	14
Report of the Directors	17
Report of the Auditors	30
Consolidated Profit and Loss Account	31
Consolidated Balance Sheet	32
Consolidated Summary Statement of Changes in Equity	33
Consolidated Cash Flow Statement	34
Balance Sheet	36
Notes to Financial Statements	37

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Chung Yuk Sing (*Chairman*)
 Tsang Yuk Ni
 Chung Tung Sau
 Tsang Sau Fan
 Ku Yu Sun Edward
 (appointed on 16th April, 2004)
 Kuo Tai Yu
 (appointed on 16th April, 2004)

NON-EXECUTIVE DIRECTOR

Ong Chor Wei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Cheuk Ho
 Li Chi Chung

COMPANY SECRETARY

Ong Chor Wei *ACA, AHKSA*

AUTHORISED REPRESENTATIVES

Chung Yuk Sing
 Tsang Yuk Ni

REGISTERED OFFICE

Century Yard
 Cricket Square
 Hutchins Drive
 P.O. Box 2681GT
 George Town
 Grand Cayman
 Cayman Islands
 British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 0902-0903 and 0905-0906
 9th Floor, Tower B
 Regent Centre
 70 Ta Chuen Ping Street
 Kwai Chung
 New Territories
 Hong Kong

LEGAL ADVISERS

As to Hong Kong Law:
 Vincent T.K. Cheung, Yap & Co.
 15th Floor
 Alexandra House
 16-20 Chater Road
 Hong Kong

As to PRC Law:
 GFE Law Office
 (also known as Guangzhou Foreign
 Economic Law Office)
 18th Floor
 Guangdong Holdings Tower
 No. 555 Dongfeng East Road
 Guangzhou
 People's Republic of China ("PRC")

As to Cayman Islands Law:
 Conyers Dill & Pearman, Cayman
 Century Yard, Cricket Square
 Hutchins Drive
 George Town
 Grand Cayman
 Cayman Islands
 British West Indies

As to Macau Law:
 Paulino Comandante – Advogado
 Beco do Goncalo, n°1
 1° andar "n"
 Macau

Corporate Information

AUDITORS

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

AUDIT COMMITTEE MEMBERS

Chan Cheuk Ho
Li Chi Chung

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
673 Nathan Road
Kowloon
Hong Kong

Citibank N.A.
Room 2908, Tower 1
The Gateway
25 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

Natexis Banques Populaires
Hong Kong Branch
12th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR & TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
36C Bermuda House
British American Centre
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR & TRANSFER OFFICE

Tengis Limited
Ground Floor
BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

WEBSITE

<http://www.eaglenice.com.hk>

STOCK CODE

2368

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the board of directors (the "Board") of Eagle Nice (International) Holdings Limited (the "Company"), I am pleased to present the annual audited results of the Company and its subsidiaries (together the "Group") for the financial year ended 31st March, 2004.

The year ended 31st March, 2004 is a milestone for our Group as we successfully listed the Company's shares on the Main Board of the Stock Exchange on 22nd August, 2003.

BUSINESS REVIEW

I am pleased to report a strong performance of our Group for the year ended 31st March, 2004 compared to the previous corresponding year in 2003 as the turnover and net profit from ordinary activities attributable to shareholders increased by approximately 34.3% and approximately 4.2% respectively despite difficult global economic conditions as a result of the outbreak of Severe Acute Respiratory Syndrome ("SARS") and the weak global economic conditions.

The growth in turnover came principally from the increasing orders placed by our existing customers such as **Nike** and other international brandname customers. Meanwhile, our Group's marketing team continued to approach new customers and trial orders are constantly taking place by new or potential customers.

On the production side, our Group continued to expand our production capacity during the year ended 31st March, 2004 compared to the previous corresponding year in 2003 by acquiring further plant and machinery, employing more labour and leasing more factory premises.

RESULTS HIGHLIGHTS

The results highlights for the year ended 31st March, 2004 are as follows:

- Turnover increased by 34.3% to approximately HK\$325.4 million (31st March, 2003: approximately HK\$242.3 million);
- Net profit for the year increased by 4.2% to approximately HK\$32.1 million (31st March, 2003: approximately HK\$30.8 million); and
- As at 31st March, 2004, our Group's net current asset position increased 77 times from approximately HK\$0.5 million in previous corresponding year to approximately HK\$41 million, representing a current ratio of 1.53 (31st March, 2003: 1.01).

*Chairman's Statement***SUBSCRIPTION OF NEW SHARES AND CONVERTIBLE NOTE BY GREAT PACIFIC INVESTMENTS LIMITED ("SUBSCRIBER"), A WHOLLY-OWNED SUBSIDIARY OF YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED ("YUE YUEN")**

On 3rd March, 2004, our Company, Time Easy Investment Holdings Limited and myself entered into the conditional subscription agreement with the Subscriber and Yue Yuen ("Subscription Agreement") in relation to the subscription by the Subscriber of 105,000,000 new shares in our Company at HK\$1.06 per share ("Subscription Shares"), making a total subscription price of HK\$111.3 million, and the convertible note issued by our Company to the Subscriber ("Convertible Note") at a subscription price of HK\$207.06 million. The total consideration payable by the Subscriber for the Subscription Shares and the Convertible Note (collectively, the "Subscription") is HK\$318.36 million, which is payable in cash upon completion of the Subscription Agreement.

On the same day, our Group also entered into the conditional placing agreement ("Placing Agreement") with Barits Securities (Hong Kong) Limited ("Barits") pursuant to which Barits agrees to procure placees, on a fully underwritten basis, and our Company agrees to issue, an aggregate of 35,000,000 new shares in our Company at HK\$1.06 per share ("Placing Shares"). The total subscription price for the Placing Shares (the "Placing") is approximately HK\$37.1 million, which is payable in cash upon completion of the Placing Agreement.

The completion of the Subscription Agreement and the Placing Agreement took place on 16th April, 2004.

For further details of the Subscription Agreement and Placing Agreement, please refer to our circular to shareholders dated 24th March, 2004.

Our Group intends to apply the net proceeds as described above for (a) setting up new production facilities (which includes acquisition of new machinery, fixtures and fittings, land and buildings and leasehold improvements in the PRC and Asia); (b) expanding marketing force and exploring sales opportunities in new markets such as the United States and Europe; and (c) working capital to support our expansion.

Our Group believes that the Subscription and Placing are in the interests of our Group as they will introduce a reputable strategic partner to our Group with expertise that complements that of our Group and strengthens the capital base of our Group, thereby facilitating the future expansion plans of our Group.

Chairman's Statement

ACQUISITION OF NEW PRODUCTION PLANT

As part of our expansion plans, on 19th June, 2004, we entered into an agreement (“Agreement”) with 汕頭經濟特區成德工業村開發有限公司 (Shantou Special Economic Zone Cheng De Industrial Village Development Co. Ltd.) (“C.D. Real Estate”), an independent corporation established in the PRC, whereby C.D. Real Estate will construct and sell, and we agree to purchase, a new production plant (“New Production Plant”) for a consideration of RMB102,175,000 (approximately HK\$96,391,509). The New Production Plant will be erected on the piece of land located at 汕頭經濟特區成德工業村第十五街區 (15th Street District, Cheng Di Industrial Village, Shantou Special Economic Zone) with a site area of approximately 23,334 sq.m.. When completed, the New Production Plant will comprise a 7-storey industrial building with a planned gross floor area of approximately 67,000 sq.m. together with ancillary facilities including a basketball court and a car port. The New Production Plant is expected to have a production capacity of approximately 750,000 dozens of sportswear per annum and will increase our Group’s existing production capacity of approximately 245,000 dozens of sportswear per annum by approximately 200 per cent.. C.D. Real Estate will complete and deliver the New Production Plant to our Group on or before 15th April, 2005. The Agreement is conditional upon certain conditions as disclosed in our circular to shareholders dated 14th July, 2004.

For further details of the acquisition, please refer to our circular to shareholders dated 14th July, 2004.

Currently, most of our Group’s existing production facilities are leased from independent third parties on short term tenancies, a majority of which are due to expire before the end of 2006. It would, therefore, be in our Group’s interest to have a contingency plan in place in case of any possible non-renewal of such short term tenancies or any significant increase in rental expenses in the future. Moreover, as stated in our prospectus dated 12th August, 2003 (“Prospectus”) in relation to the placing, public offer and offer for sale of 50,000,000 shares of the Company (“Share Offer”) and our circular to shareholders dated 24th March, 2004 in relation to, among other things, the Subscription and the Placing, our Group has plans to set up new production facilities for the manufacture of sportswear for men, women and children in the PRC and Asia. With such expanded production capacity, our Group will be able to capture an anticipated increase in sales orders resulting from the possible referral of the existing customers of Yue Yuen and its subsidiaries (the “Yue Yuen Group”) to our Group and the geographical expansion of our market to the United States and Europe. As such, we consider that the acquisition of the New Production Plant is in the interest of our Group and in line with our expansion plans.

Chairman's Statement

LOOKING FORWARD

We believe our Group's prospects are promising as the markets which our Group sells to continue to grow in particular the PRC. At the same time, our Group will continue to expand to new markets such as Europe and United States. The expansion will come from our Group's marketing team efforts as well as our strategic relationship with Yue Yuen following the subscription of shares in our Company by a wholly owned subsidiary of Yue Yuen. We believe our strategic relationship with Yue Yuen will (a) facilitate our expansion to overseas markets as Yue Yuen has a client base which may include potential clients of our Group (b) assist our Group to set up new production facilities outside the PRC as Yue Yuen has long experience in establishing production facilities outside the PRC and (c) strengthen our capital base further.

To grasp the opportunities and to cope with our expansion, our Group will continue to expand our production capacity by acquiring new plants and buildings and expand our labour force. Our recent agreement to acquire a New Production Plant as described above is a reflection of our commitment and confidence in our future. Also, to strengthen our competitiveness in the industry, our Group will, from time to time, control its costs, improve its design capabilities and management efficiency so as to assure and enhance our Group's profitability in the long run.

Finally, on behalf of the Board, I would like to take this opportunity to express our gratitude to all members of the Board and staff for their dedication and contribution to our Group and to those who have supported us.

Chung Yuk Sing

Chairman

Hong Kong, 23rd July, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the design and manufacture of sportswear for men, women and children on an OEM (an acronym for “original equipment manufacturer”, which produces or customises products according to the design supplied by others) basis. The sportswear manufactured and sold by the Group can broadly be divided into tracksuits, sports pants, jackets, sweaters and t-shirts. The remaining products comprise casual wear, kids wear and fashion wear. The Group manufactures products under international brandnames such as **Nike**.

For the year ended 31st March, 2004, the Group’s products were mainly sold to Japan, the PRC and South Korea.

The performance of the Group for the year ended 31st March, 2004 was strong compared to the previous corresponding year in 2003 as the turnover and net profit from ordinary activities attributable to the shareholders of the Group increased by approximately 34.3% and approximately 4.2% respectively despite difficult global economic conditions as a result of the outbreak of SARS and the weak global economic conditions.

The growth in turnover came principally from the increasing orders placed by the Group’s existing customers such as **Nike** and other international brandname customers. Meanwhile, the Group’s marketing team continued to approach new customers and trial orders are constantly taking place by new or potential customers.

On the production side, the Group continued to expand its production capacity during the year ended 31st March, 2004 compared to the previous corresponding year in 2003 by acquiring further plant and machinery, employing more labour and leasing more factory premises.

FINANCIAL REVIEW

Results

For the year ended 31st March, 2004, turnover of the Group increased to approximately HK\$325.4 million compared to approximately HK\$242.3 million for the previous corresponding year, an increase of approximately 34.3%. The increase was mainly attributed to an increase in the orders placed by customers as a result of the hard work of the Group’s marketing team supported by an expansion in the Group’s production capacity. In terms of geographical segments, sales to the Group’s major markets, i.e. Japan, the PRC and South Korea increased by approximately 61.6%, 58.0% and 60.9% respectively.

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Results *(continued)*

Gross profit of the Group for the year ended 31st March, 2004 increased to approximately HK\$60.8 million compared to approximately HK\$55.6 million for the previous corresponding year due to an increase in the level of turnover. The gross profit margin of the Group decreased from approximately 22.9% for the previous corresponding year to approximately 18.7% for the current year. The decrease in gross profit margin was mainly attributed to higher percentage increase in costs of sales due to increase in cost of materials and higher fixed overheads such as salaries, rental and depreciation to support the Group's expansion.

Other income for the year ended 31st March, 2004 increased by approximately 33.3% to approximately HK\$3.6 million compared to approximately HK\$2.7 million for the previous corresponding year. The increase was mainly attributed to an increase in the amount of sale of samples and interest income.

Selling and distribution expenses of the Group for the year ended 31st March, 2004 increased to approximately HK\$4.4 million compared to approximately HK\$1.7 million for the previous corresponding year, an increase of approximately 158.8%. The increase was mainly attributed to an increase in the transportation costs to customers due to shorter delivery time required and commission paid for the introduction of new customers.

Administrative expenses for the year ended 31st March, 2004 increased by approximately 5.7% to approximately HK\$22.1 million compared to approximately HK\$20.9 million for the previous corresponding year. The increase was mainly due to an increase in the level of salaries and general overheads to cope with the expansion of the business.

Finance costs for the year ended 31st March, 2004 increased by approximately 53.3% to approximately HK\$2.3 million compared to approximately HK\$1.5 million for the previous corresponding year. The increase was mainly attributed to an increase in the bank borrowings to finance acquisition of fixed assets and for working capital.

The Group's profit attributable to shareholders for the year ended 31st March, 2004 increased by approximately 4.2% to approximately HK\$32.1 million compared to approximately HK\$30.8 million for the previous corresponding year. The increase was the result of an increase in the level of turnover.

*Management Discussion and Analysis***LIQUIDITY AND FINANCIAL RESOURCES**

As at 31st March, 2004, the Group had net current assets of approximately HK\$41.0 million (31st March, 2003: approximately HK\$0.5 million).

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers. Net proceeds from the initial public offering of the Company's shares were primarily used for acquisition of new machinery and fixtures and fittings to support the expansion in capacity and vertical integration, to acquire additional factory building in the PRC and to expand the Group's marketing team and sales network. As at 31st March, 2004, the Group had cash and bank deposits amounted to approximately HK\$36.9 million (31st March, 2003: approximately HK\$7.4 million).

As at 31st March, 2004, the Group had outstanding borrowings of approximately HK\$38.9 million (31st March, 2003: approximately HK\$26.6 million), comprising secured bank overdrafts of approximately HK\$7.4 million (31st March, 2003: approximately HK\$3.9 million), secured trust receipt loans of approximately HK\$18.9 million (31st March, 2003: approximately HK\$8.7 million), secured mortgage loans of approximately HK\$5.7 million (31st March, 2003: approximately HK\$7.9 million), other secured bank loans of approximately HK\$5.0 million (31st March, 2003: approximately HK\$6.1 million) and obligations under finance leases of approximately HK\$1.9 million (31st March, 2003: nil). Approximately HK\$33.3 million of the total outstanding borrowings are repayable within one year and the remaining balance of approximately HK\$5.6 million is repayable beyond one year but within five years.

As at 31st March, 2004, the Group had aggregate banking and credit facilities of approximately HK\$99.2 million (31st March, 2003: approximately HK\$79.4 million), of which approximately HK\$38.9 million (31st March, 2003: approximately HK\$26.6 million) had been utilised and were secured by: (i) a property owned by the Group; (ii) fixed deposits owned by the Group; (iii) unlisted investment funds owned by the Group; (iv) corporate guarantees executed by the Company; and (v) unlimited corporate guarantee executed by two subsidiaries of the Company.

As at 31st March, 2004, the Group's gearing ratios represented by total liabilities as a percentage of the Group's total assets amounted to approximately 48.2% (31st March, 2003: approximately 59.2%).

As at 31st March, 2004, the Group had no bills discounted with recourse (31st March, 2003: approximately HK\$0.9 million).

For the year ended 31st March, 2004, the Group was not subject to any significant exposures in foreign exchange rates risk. Hence, no financial instrument for hedging was employed.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES *(continued)*

The management believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable terms.

CAPITAL STRUCTURE

The shares of the Company were listed on the Main Board of the Stock Exchange on 22nd August, 2003. There has been no change in the capital structure of the Company since that date to 31st March, 2004.

On 3rd March, 2004, the Company, Time Easy Investment Holdings Limited and Mr. Chung Yuk Sing entered into the conditional subscription agreement with the Subscriber and Yue Yuen in relation to the subscription by the Subscriber of the Subscription Shares, making a total subscription price of HK\$111.3 million, and of the Convertible Note at a subscription price of HK\$207.06 million. The total consideration payable by the Subscriber for the Subscription is HK\$318.36 million, which is payable in cash upon completion of the Subscription Agreement.

On the same day, the Group entered into the Placing Agreement with Barits, pursuant to which Barits agrees to procure placees, on a fully underwritten basis, and our Company agrees to issue, an aggregate of 35,000,000 Placing Shares. The total subscription price for the Placing Shares is approximately HK\$37.1 million, which is payable in cash upon completion of the Placing Agreement.

The completion of the Subscription Agreement and the Placing Agreement took place on 16th April, 2004.

Management Discussion and Analysis

COMMENTS ON SEGMENTAL INFORMATION

Segment information is presented by way of the Group's primary reporting basis, by geographical segment. No further business segment is presented as the Group is solely engaged in the manufacture and sale of sportswear and garments.

The Group's turnover by geographical segments, based on location of customers, are summarised as follows :

	2004		2003		Year-on-year
	HK\$'000	%	HK\$'000	%	% change
Hong Kong	13,591	4.2	39,830	16.4	(65.9)
PRC	85,561	26.3	54,144	22.3	58.0
Japan	135,734	41.7	83,972	34.7	61.6
South Korea	54,150	16.6	33,650	13.9	60.9
Australia	3,722	1.2	9,827	4.1	(62.1)
Others	32,653	10.0	20,907	8.6	56.2
	325,411	100.0	242,330	100.0	34.3

SIGNIFICANT INVESTMENTS

As at 31st March, 2004, there was no significant investment held by the Group (31st March, 2003 : nil).

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Other than in connection with the reorganisation in preparation for the listing of the Company's shares on the Stock Exchange on 22nd August, 2003, there were no material acquisition or disposal of subsidiaries and associated companies during the year ended 31st March, 2004.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 31st March, 2004, the Group employed a total of 4,563 (31st March, 2003: 3,783) employees including directors. Total staff costs including directors emoluments were approximately HK\$66.9 million in the year under review (31st March, 2003: approximately HK\$52.4 million).

The employees are remunerated based on their work performance, professional experiences and the prevailing industry practice. The Group also makes contributions to the statutory mandatory provident fund scheme for the employees of the Group in Hong Kong and to the central pension scheme for the employees of the Group in the PRC. A share option scheme is operated by the Company from 6th August, 2003. In the year under review, no share options have been granted to any employees.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS AND THEIR EXPECTED SOURCE OF FUNDING

As part of our expansion plans, subsequent to the year end and on 19th June, 2004, a wholly-owned subsidiary of the Company entered into an agreement with C.D. Real Estate, an independent corporation established in the PRC, whereby C.D. Real Estate will construct and sell, and the Group will purchase, a New Production Plant for a consideration of RMB102,175,000 (approximately HK\$96,391,509). The New Production Plant will be erected on a land with a site area of approximately 23,334 sq.m.. When completed, the New Production Plant will comprise a 7-storey industrial building with a planned gross floor area of approximately 67,000 sq.m. together with ancillary facilities including a basketball court and a car port. The New Production Plant is expected to have a production capacity of approximately 750,000 dozens of sportswear per annum and will increase the Group's existing production capacity of approximately 245,000 dozens of sportswear per annum by approximately 200 per cent.. C.D. Real Estate will complete and deliver the New Production Plant to the Group on or before 15th April, 2005. The Agreement is conditional upon certain conditions as disclosed in our circular to shareholders dated 14th July, 2004.

For further details of the acquisition, please refer to our circular to shareholders dated 14th July, 2004.

The source of funding for the acquisition will come partly from the proceeds of the share offer, the Subscription and the Placing.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Chung Yuk Sing, aged 43, is the Chairman and an executive director and the co-founder of the Group. Mr. Chung is responsible for the overall strategic planning, marketing and management functions of the Group. Mr. Chung has over ten years of manufacturing and management experience in the garment industry. He was appointed as an executive director in October 2002. He is the spouse of Ms. Tsang Yuk Ni and the nephew of Mr. Chung Tung Sau.

Tsang Yuk Ni, aged 38, is an executive director and the co-founder of the Group. Ms. Tsang is responsible for the administrative and management functions of the Group. Ms. Tsang has over ten years of experience of administration experience in the garment industry. She was appointed as an executive director in October 2002. She is the spouse of Mr. Chung Yuk Sing.

Chung Tung Sau, aged 51, is an executive director. Mr. Chung is responsible for the strategic planning and management functions of the Group. Mr. Chung has over twenty years of managerial experience in the manufacturing industry in particular, in the areas of production and sales and was previously a director of Quam Limited (previously known as Wah Fu International Holdings Limited), a company listed on the Main Board of the Stock Exchange. Prior to joining the Group in October 2002, he worked as a sales director in a securities company. Mr. Chung was an independent non-executive director of IA International Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, until October, 2003. He has been an executive director since October 2002. He is the uncle of Mr. Chung Yuk Sing.

Tsang Sau Fan, aged 37, is an executive director and general manager of the Group. Ms. Tsang is responsible for the sales and marketing functions of the Group. Ms. Tsang has over ten years experience in sales of garment products. Prior to joining the Group in March 1996, she worked as a merchandiser in a garment manufacturing company in Hong Kong. She has been an executive director since October 2002.

Ku Yu Sun Edward, aged 61, is an executive director. Mr. Ku was the senior partner of the law firm, Ku & Fong, in Los Angeles and is licensed to practise law in California and Taiwan. He also served as an executive director and the secretary of First Public Bank in Los Angeles. Mr. Ku holds a bachelor-in-law degree from National Taiwan University and received his J.D. degree from Washington University in St. Louis, U.S.. Mr. Ku concurrently serves as the executive director and general counsel of Yue Yuen, a company listed on the Main Board of the Stock Exchange, since 1997, responsible for legal affairs, organisational management and control, merger and acquisition and supervision of group labour practice of Yue Yuen Group. In the past three years, Mr. Ku has been and still is the executive director of Symphony Holdings Limited, a company listed on the Main Board of the Stock Exchange, the supervisor of Elite Group Computer Systems Co., Ltd. and Global Brands Manufacture Ltd. and the director of certain companies within the Yue Yuen Group. He was appointed as an executive director in April 2004.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS *(continued)*

Kuo Tai Yu, aged 54, is an executive director. Mr. Kuo has 27 years of experience in production of footwear in Taiwan. He received a bachelor's degree from Chung Hsing University in Taiwan. In the past three years, Mr. Kuo has been and still is the director of certain companies within the Yue Yuen Group and the director of Pou Chen Corporation, a company listed on the stock exchange of Taiwan. He is currently the executive director of Yue Yuen and general manager in charge of one of Yue Yuen's three shoe manufacturing groups since 1996. He was appointed as an executive director in April 2004.

NON-EXECUTIVE DIRECTOR

Ong Chor Wei, aged 34, is a non-executive director and the secretary of the Company. Mr. Ong is responsible for the financial management functions of the Group. He graduated from the London School of Economics and Political Science, University of London with a Bachelor of Laws degree in 1990. He obtained a Master of Business Administration jointly awarded by the University of Wales and the University of Manchester in 2000. He is an associate member of the Hong Kong Society of Accountants and Institute Chartered Accountants in England and Wales. Mr. Ong has over ten years of experience in finance and accounting. Mr. Ong is also an executive director of FX Creations International Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange and a non-executive director of Jets Technics International Holdings Limited, a company listed on the stock exchange of Singapore. He has been a non-executive director and secretary of the Company since October 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Chi Chung, aged 35, is a solicitor practising in Hong Kong. He obtained a bachelor degree in laws from the University of Sheffield in England in 1990. Mr. Li was admitted as a solicitor in Hong Kong in 1993 and his practice has been focused on commercial related matters. He is also an independent non-executive director of PINE Technology Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. He has been an independent non-executive director since November 2002.

Chan Cheuk Ho, aged 37, obtained a master's degree in Business Administration from the University of Manchester in 2003. He is also a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. Mr. Chan has more than ten years of experience in accounting and finance. He has been an independent non-executive director since November 2002.

*Directors and Senior Management Profile***SENIOR MANAGEMENT**

Chan Zhen Hao, aged 38, is the supervisor of the Group's production facilities in the PRC. He is responsible for the management and production functions of the Group in the PRC. Mr. Chan has over ten years experience in production of garment. Prior to joining the Group in March 1987, he worked as a supervisor in a garment manufacturing company in the PRC.

Ching Yuen Fun, aged 36, is the administration assistant of the Group. She is responsible for the administrative functions of the Group. Ms. Ching obtained a diploma in management studies awarded jointly by Hong Kong Management Association and the Hong Kong Polytechnic University in 1999. Ms. Ching has over five years experience in administration. Prior to joining the Group in January 2002, she worked as an administrative assistant in a sports company in Hong Kong.

Luo Wen, aged 37, is the sales manager of Group. She is responsible for the Group's sales in the PRC. Ms. Lo has over five years experience in sales and marketing. She obtained a degree from Xiang Fan University, PRC in 1986. Prior to joining the Group in May 1995, she worked for a property development company in the PRC.

Mak Shun Yee, aged 34, is the accountant of the Group. She is responsible for the accounting and finance functions of the Group. Ms. Mak completed her secondary level education in Hong Kong in 1986. Ms. Mak has over ten years experience in accounting and finance. Prior to joining the Group in January 1995, she worked in a toy manufacturing company in Hong Kong.

Ma Mei Shu, aged 30, is the human resources manager of the Group's production facilities in the PRC. She is responsible for the human resources management function of the Group in the PRC. Ms. Ma has over three years experience in human resources. Ms. Ma obtained a degree from Nei Meng Gu Normal University, the PRC in 2001. Prior to joining the Group in July 2004, she worked for a wholly foreign owned enterprise in the PRC.

REPORT OF THE DIRECTORS

The directors present their first report and the audited financial statements of the Company for the period from 9th October, 2002 (date of incorporation) to 31st March, 2004 and of the Group for the year ended 31st March, 2004.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 9th October, 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 6th August, 2003. Further details of the Group Reorganisation are set out in notes 1 and 25 to the financial statements and in the prospectus of the Company dated 12th August, 2003 (the "Prospectus").

The listing of the shares of the Company on the Stock Exchange commenced on 22nd August, 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The profit of the Group for the year ended 31st March, 2004 and the state of affairs of the Company and of the Group at that date are set out in the annual report on pages 31 to 76.

An interim dividend of HK3 cents per ordinary share was paid on 8th January, 2004. The directors recommend the payment of a final dividend of HK3.5 cents per ordinary share in respect of the year, to shareholders on the register of members on 18th August, 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

*Report of the Directors***USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING OF THE COMPANY**

The proceeds from the issue of new shares of the Company at the time of its listing on the Stock Exchange on 22nd August, 2003, after deduction of related issuance expenses, amounted to approximately HK\$21,074,000. During the year under review, the Group utilised approximately HK\$7 million for various purposes, which were in line with the proposed applications set out in the Prospectus, as follows:

	<i>HK\$</i> <i>(in million)</i>
Acquisition of additional factory buildings	–
Acquisition of new machinery and fixtures and fittings	2
Marketing and promotion	2
General working capital	3
	<hr/>
	7

The remaining net proceeds at 31st March, 2004, of approximately HK\$14 million, were placed on short-term interest-bearing deposits with banks in Hong Kong. The directors intend to use the net proceeds in the manner as disclosed in the Prospectus.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets and liabilities of the Group for the last four financial years prepared on the basis set out in the note below.

Results

	2004 HK\$'000	Year ended 31st March,		
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	325,411	242,330	218,704	178,191
Profit before tax	35,597	34,275	31,630	23,281
Tax	(3,511)	(3,444)	(3,502)	(3,246)
Net profit from ordinary activities attributable to shareholders	32,086	30,831	28,128	20,035

Assets and liabilities

	2004 HK\$'000	As at 31st March,		
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Non-current assets	56,186	45,234	14,600	10,910
Current assets	118,162	47,865	42,094	29,323
Current liabilities	(77,136)	(47,333)	(33,685)	(25,097)
Net current assets	41,026	532	8,409	4,226
Non-current liabilities	(6,850)	(7,774)	(910)	(1,010)
	90,362	37,992	22,099	14,126

Note: The summary of the consolidated results of the Group for each of three years ended 31st March, 2003 and of the assets and liabilities of the Group as at 31st March, 2001, 2002 and 2003 have been extracted from the Prospectus. The summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis set out in note 1 to the financial statements. The consolidated results of the Group for the year ended 31st March, 2004 and the consolidated assets and liabilities of the Group as at 31st March, 2004 are those set out on pages 31 to 76 of the annual report.

Report of the Directors

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the period from 9th October, 2002 (date of incorporation) to 31st March, 2004, together with the reasons therefor, are set out in notes 25 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The listing of the Company's shares commenced on 22nd August, 2003. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities between that date and 31st March, 2004.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 31st March, 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$62,933,000, of which HK\$11,900,000 has been proposed as a final dividend for the year. The amount of HK\$62,933,000 includes the Company's share premium account and capital reserve, of HK\$62,442,000 in aggregate at 31st March, 2004, which may be distributed provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 99.2% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 58.5%.

Purchases from the Group's five largest suppliers accounted for approximately 46.5% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 14.9%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the period from 9th October, 2002 (date of incorporation) to 31st March, 2004 were:

Executive directors:

Mr. Chung Yuk Sing	(appointed on 28th October, 2002)
Ms. Tsang Yuk Ni	(appointed on 28th October, 2002)
Mr. Chung Tung Sau	(appointed on 31st October, 2002)
Ms. Tsang Sau Fan	(appointed on 31st October, 2002)

Non-executive director:

Mr. Ong Chor Wei	(appointed on 31st October, 2002)
------------------	-----------------------------------

Independent non-executive directors:

Mr. Chan Cheuk Ho	(appointed on 18th November, 2002)
Mr. Li Chi Chung	(appointed on 27th November, 2002)

Subsequent to the balance sheet date, on 16th April, 2004, Mr. Ku Yu Sun Edward and Mr. Kuo Tai Yu were appointed as executive directors of the Company.

Report of the Directors

DIRECTORS *(continued)*

In accordance with article 86(3) of the Company's articles of association, Mr. Ku Yu Sun Edward and Mr. Kuo Tai Yu will hold office until the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

In accordance with article 87 of the Company's articles of association, Mr. Ong Chor Wei and Mr. Chan Cheuk Ho will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and senior management of the Group are set out on pages 14 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

The non-executive directors (including the independent non-executive directors) have no fixed terms of office, but are subject to the provisions governing the retirement and rotation of directors in the articles of association of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

Save for the Subscription Agreement to which Time Easy Investment Holdings Limited ("Time Easy") and Mr. Chung Yuk Sing are parties, details of which are set out in the Chairman's Statement, no director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March, 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) The Company

Name of director	Capacity/Nature of interest	Number of shares held		Percentage of issued share capital of the Company
		Long position	Short position	
Chung Yuk Sing	Interest of controlled corporation/ Corporate	150,000,000 (Note)	–	75%
Tsang Sau Fan	Beneficial owner/ Personal	1,500,000	–	0.75%

Note: These shares are held by Time Easy. The entire issued share capital of Time Easy is held by Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni, the wife of Mr. Chung Yuk Sing, in the proportion of 90% and 10% respectively.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(ii) Associated corporations

Name of director	Name of associated corporation	Capacity/ Nature of interest	Number and class of shares in associated corporation held		Percentage of issued share capital of the same class of the associated corporation
			Long position	Short position	
Chung Yuk Sing	Eagle Nice Development Limited ("Eagle Nice Development")	Beneficial owner/ Personal	9,000 non-voting deferred	9,000 non-voting deferred (Note 1)	90%
	Far East (International) Garment Limited ("Far East")	Beneficial owner/ Personal	9,000 non-voting deferred	9,000 non-voting deferred (Note 2)	90%
	Time Easy (Note 3)	Beneficial owner/ Personal	900 ordinary shares	–	90%
Tsang Yuk Ni	Eagle Nice Development	Beneficial owner/ Personal	1,000 non-voting deferred	1,000 non-voting deferred (Note 1)	10%
	Far East	Beneficial owner/ Personal	1,000 non-voting deferred	1,000 non-voting deferred (Note 2)	10%
	Time Easy (Note 3)	Beneficial owner/ Personal	100 ordinary shares	–	10%

*Report of the Directors***DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(continued)***(ii) Associated corporations** *(continued)**Notes:*

1. Pursuant to an option agreement dated 28th March, 2002, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni granted an option to Jespar Age Limited ("Jespar") whereby Jespar has the right to purchase all of his/her non-voting deferred shares in Eagle Nice Development upon the terms therein provided. Accordingly, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni will be taken to have a short position in his/her non-voting deferred shares in Eagle Nice Development under the SFO.
2. Pursuant to an option agreement dated 28th March, 2002, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni granted an option to Jespar whereby Jespar has the right to purchase all of his/her non-voting deferred shares in Far East upon the terms therein provided. Accordingly, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni will be taken to have a short position in his/her non-voting deferred shares in Far East under the SFO.
3. Time Easy is the holding company of the Company and is an associated corporation of the Company under the SFO.

Save as disclosed above, none of the directors and chief executive of the Company was interested or had any short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31st March, 2004.

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Interests of the directors of the Company in competing businesses required to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are as follows:

Name of director	Name of company	Nature of competing business	Nature of interest
Mr. Ku Yu Sun Edward ("Mr. Ku")	Yuen Thai Industrial Company Limited ("Yuen Thai") (Note)	Manufacturing of sports and active wear	As a director

Note: Yuen Thai is a company incorporated in Hong Kong on 24th September, 2003 and is held as to 50% by the Yue Yuen Group and as to 50% by a subsidiary of Luen Thai Holdings Limited. Mr. Ku has been nominated by the Yue Yuen Group to represent its interest on the board of directors of Yuen Thai.

Having considered (i) the nature, geographical market, scope and size of Yuen Thai as compared to those of the Group; and (ii) the nature and extent of Mr. Ku's interest in Yuen Thai, the directors of the Company believe that there is unlikely to be any significant competition caused to the business of the Group.

Save as disclosed above, none of the directors of the Company or their respective associates was interested in, apart from the Group's business, any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

SHARES OPTION SCHEME

On 6th August, 2003, the Company has conditionally adopted the Share Option Scheme whereby eligible participants of the Share Option Scheme, including any employee (whether full-time or part-time) and any director of the Company and/or any of its subsidiaries who the Board may think fit with reference to their respective contributions to the Group, may be granted options which entitle them to subscribe for the shares of the Company. Details of the Share Option Scheme are set out in note 26 to the financial statements.

As at 31st March, 2004, no share options had been granted under the Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31st March, 2004, the interests and short positions of the following persons, other than directors and chief executive of the Company, in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/ Nature of interest	Number of Shares		Percentage of shareholding
		Long position	Short position	
Time Easy	Beneficial owner/ Personal	150,000,000 (Note 1)	–	75%
Pou Chen Corporation ("PCC")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	96%
Wealthplus Holdings Limited ("Wealthplus")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	96%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	96%
Pou Hing Industrial Co. Ltd. ("Pou Hing")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	96%
Great Pacific Investments Limited ("Great Pacific")	Beneficial owner/ Personal	192,000,000 (Notes 2 and 3)	–	96%

*Report of the Directors***SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES** *(continued)**Notes:*

1. The entire issued share capital of Time Easy is held by Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni in the proportion of 90% and 10% respectively.
2. PCC owns the entire interest in Wealthplus which in turn owns approximately 46.6% interest in Yue Yuen. Yue Yuen owns the entire interest in Pou Hing which in turn owns the entire interest in Great Pacific.
3. Pursuant to a conditional subscription agreement dated 3rd March, 2004 and made between, inter alios, the Company and Great Pacific (the "Subscription Agreement"), Great Pacific agreed to subscribe (i) 105,000,000 new shares at HK\$1.06 per share and (ii) a convertible note in the aggregate principal amount of HK\$207,060,000 which would be convertible into 87,000,000 new shares at the initial conversion price of HK\$2.38 per share (subject to adjustment). As at 31st March, 2004, the Subscription Agreement had not been completed. Notwithstanding this, Great Pacific was deemed to be interested in these shares under the SFO by virtue of its aforesaid obligations under the Subscription Agreement.

Save as disclosed above, no person was interested in or had a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as at 31st March, 2004.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 32 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

*Report of the Directors***AUDIT COMMITTEE**

The Company has an audit committee which was established on 6th August, 2003 and in accordance with the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company. The annual results of the Group for the year ended 31st March, 2004 had been reviewed by the audit committee.

AUDITORS

Ernst & Young retire and a resolution of their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chung Yuk Sing

Chairman

Hong Kong

23rd July, 2004

REPORT OF THE AUDITORS



To the members

Eagle Nice (International) Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 31 to 76 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 financial statements which give a true and fair view. In preparing 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 financial statements and to report our opinion solely to you, as a body, 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 Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March, 2004 and of the profit 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.

Ernst & Young

Certified Public Accounts

Hong Kong
23rd July, 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(For the year ended 31st March, 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	5	325,411	242,330
Cost of sales		(264,576)	(186,746)
Gross profit		60,835	55,584
Other revenue	5	3,606	2,727
Selling and distribution costs		(4,431)	(1,683)
Administrative expenses		(22,138)	(20,854)
PROFIT FROM OPERATING ACTIVITIES	6	37,872	35,774
Finance costs	9	(2,275)	(1,499)
PROFIT BEFORE TAX		35,597	34,275
Tax	10	(3,511)	(3,444)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	32,086	30,831
DIVIDENDS	12	17,900	15,000
		HK cents	HK cents
EARNINGS PER SHARE	13		
Basic		17.0	18.1
Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

(At 31st March, 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	50,056	38,369
Prepayments and deposits for fixed assets		1,630	2,589
Long term investments	15	4,500	4,276
		56,186	45,234
CURRENT ASSETS			
Inventories	17	44,520	17,497
Accounts and bills receivable	18	33,469	18,761
Prepayments, deposits and other receivables		3,297	4,215
Pledged deposits	19	5,518	6,479
Cash and cash equivalents	19	31,358	913
		118,162	47,865
CURRENT LIABILITIES			
Accounts payable	20	21,146	9,426
Accrued liabilities and other payables		12,272	5,253
Tax payable		10,432	7,974
Dividends payable		–	5,000
Interest-bearing bank borrowings, secured	21, 22	32,556	19,680
Finance lease payables	23	730	–
		77,136	47,333
NET CURRENT ASSETS		41,026	532
TOTAL ASSETS LESS CURRENT LIABILITIES		97,212	45,766
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings, secured	21, 22	4,468	6,964
Finance lease payables	23	1,172	–
Deferred tax liabilities	24	1,210	810
		6,850	7,774
		90,362	37,992
CAPITAL AND RESERVES			
Issued capital	25	2,000	280
Reserves	27	76,462	37,712
Proposed final dividend	12	11,900	–
		90,362	37,992

Chung Yuk Sing
Director

Chung Tung Sau
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

(For the year ended 31st March, 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
Total equity at beginning of year		37,992	22,371
Capital reserve arising on Group Reorganisation	27	–	(272)
Issue of new shares for cash consideration, including share premium	25	30,000	–
Share issue expenses	27	(8,926)	–
Surplus on revaluation of leasehold land and buildings	14	5,386	–
Deferred tax charged to equity	24, 27	(400)	–
Surplus on revaluation of long term investments	15	224	62
Net gains not recognised in the profit and loss account		5,210	62
Net profit for the year	27	32,086	30,831
Dividends	12, 27		
Interim dividend		(6,000)	–
Dividend declared and paid by a subsidiary to its then shareholder		–	(15,000)
Total equity at end of year		90,362	37,992

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended 31st March, 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		35,597	34,275
Adjustments for:			
Interest income	5	(288)	(126)
Depreciation	6	8,736	5,606
Write off of fixed assets	6	103	–
Finance costs	9	2,275	1,499
Operating profit before working capital changes		46,423	41,254
Increase in inventories		(27,023)	(2,482)
Increase in accounts and bills receivable		(14,708)	(15,232)
Decrease/(increase) in prepayments, deposits and other receivables		918	(2,541)
Increase/(decrease) in accounts payable		11,720	(585)
Increase in accrued liabilities and other payables		7,019	1,135
Cash generated from operations		24,349	21,549
Interest paid		(2,193)	(1,499)
Interest element on finance lease rental payments		(82)	–
Dividends paid		(11,000)	–
Hong Kong profits tax paid		(1,053)	(2,639)
Net cash inflow from operating activities		10,021	17,411
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(10,248)	(33,589)
Prepayments and deposits for fixed assets		(1,630)	(2,589)
Decrease in an amount due from a director		–	5,605
Decrease/(increase) in pledged deposits		961	(1,456)
Interest received		288	126
Net cash outflow from investing activities		(10,629)	(31,903)

Consolidated Cash Flow Statement

(For the year ended 31st March, 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	25	30,000	–
Share issue expenses	27	(8,926)	–
Drawdown of bank loans		117,421	102,170
Repayment of bank loans		(110,500)	(88,008)
Capital element of finance lease rental payments		(401)	–
		<hr/> 27,594 <hr/>	<hr/> 14,162 <hr/>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		26,986	(330)
Cash and cash equivalents at beginning of year		(3,019)	(2,689)
		<hr/> 23,967 <hr/>	<hr/> (3,019) <hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	31,358	913
Bank overdrafts	21	(7,391)	(3,932)
		<hr/> 23,967 <hr/>	<hr/> (3,019) <hr/>

BALANCE SHEET

(At 31st March, 2004)

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	43,368	–
CURRENT ASSETS			
Due from subsidiaries	16	13,030	–
Prepayments, deposits and other receivables		26	–
Cash and cash equivalents	19	26,151	–
		39,207	–
CURRENT LIABILITIES			
Accrued liability		100	–
Due to a subsidiary	16	5,642	–
		5,742	–
NET CURRENT ASSETS			
		33,465	–
		76,833	–
CAPITAL AND RESERVES			
Issued capital	25	2,000	–
Reserves	27	62,933	–
Proposed final dividend	27	11,900	–
		76,833	–

Chung Yuk Sing
Director

Chung Tung Sau
Director

NOTES TO FINANCIAL STATEMENTS

(At 31st March, 2004)

1. CORPORATE INFORMATION AND GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 9th October, 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22nd August, 2003.

Upon incorporation, the Company had an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 28th October, 2002, an aggregate of 1,000,000 shares were allotted and issued nil paid. Apart from the foregoing, no other transactions were carried out by the Company during the period from 9th October, 2002 (date of incorporation) to 31st March, 2003. Accordingly, the Company had not recorded any assets or liabilities as at 31st March, 2003, nor any profits or losses for the period then ended.

The principal place of business of the Company is located at Units 0902-0903 and 0905-0906, 9/F, Tower B, Regent Centre, 70 Ta Chuen Ping Street, Kwai Chung, New Territories, Hong Kong. The Company's principal activity is investment holding. The Group's principal activities are the manufacture and trading of sportswear and garments.

Group reorganisation

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 6th August, 2003. This was accomplished by acquiring the entire issued ordinary share capital of Jespar Age Limited ("Jespar"), which is, as at the date of this report, the intermediate holding company of other subsidiaries, in consideration of and in exchange for the allotment and issue of an aggregate of 27,000,000 shares of HK\$0.01 each in the Company, credited as fully paid, to the then shareholder of Jespar, and the existing 1,000,000 nil paid shares being credited as fully paid at par.

Further details of the Group Reorganisation are set out in note 25 to the financial statements and in the prospectus of the Company dated 12th August, 2003.

The directors consider Time Easy Investment Holdings Limited, a company incorporated in the British Virgin Islands ("BVI"), to be the Company's ultimate holding company at the balance sheet date.

Notes to Financial Statements

(At 31st March, 2004)

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 12 “Income taxes” is effective for the first time for the current year’s financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 24 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes are included in the accounting policy for deferred tax in note 3 and in note 24 to the financial statements.

Notes to Financial Statements

(At 31st March, 2004)

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with SSAP 27, "Accounting for group reconstructions". On this basis, the Company has been treated as the holding company of its subsidiaries throughout the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated results and cash flows of the Group for the years ended 31st March, 2003 and 2004 include the results and cash flows of the Company and its subsidiaries with effect from 1st April, 2002 or since their respective dates of incorporation, where this is a shorter period. The comparative consolidated balance sheet as at 31st March, 2003 has been prepared on the basis that the current group structure has been in place at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results, cash flows and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets and long term investments, as further explained below.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Notes to Financial Statements

(At 31st March, 2004)

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

In prior years, the Group's leasehold land and buildings were stated at cost less accumulated depreciation and any impairment losses. Following the listing of the Company's shares on the Stock Exchange during the year, the Group's leasehold land and buildings are now stated at valuation less accumulated depreciation and any impairment losses which, in the opinion of the directors, are more appropriate in reflecting the fair value of the assets. The financial effect arising from the remeasurement of certain of the Group's fixed assets on a valuation basis amounted to a surplus on revaluation in the amount of HK\$5,386,000 which was recognised in the asset revaluation reserve. Further details of this change in accounting policy are set out in note 14 to the financial statements.

Notes to Financial Statements

(At 31st March, 2004)

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over the following estimated useful lives:

Leasehold land and buildings	Over the lease terms or the approved operating periods of the subsidiaries established in the People's Republic of China (the "PRC") to which the land use right is granted, whichever is shorter
Leasehold improvements	5 years or over the lease terms, whichever is shorter
Plant and machinery	5 years
Furniture, fixtures, equipment and motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Notes to Financial Statements

(At 31st March, 2004)

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leased assets *(continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are non-trading investments in unlisted investment funds intended to be held on a long term basis, and are stated at their estimated fair values, on an individual basis. The fair values of such unlisted investment funds are determined by reference to the individual market prices of the underlying securities held by the funds.

The gains or losses arising from changes in the fair value of an investment are dealt with as movements in the asset revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, when the cumulative gain or loss derived from the investment recognised in the asset revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

Inventories

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Notes to Financial Statements

(At 31st March, 2004)

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised, in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

(At 31st March, 2004)

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

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

- (i) from the sale of goods and samples, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods (including samples) sold; and
- (ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Notes to Financial Statements

(At 31st March, 2004)

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Notes to Financial Statements

(At 31st March, 2004)

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

In addition, the Group also operates a defined contribution retirement benefits scheme (the "Retirement Scheme") for those employees who are eligible to participate in this Scheme. Contributions to the Retirement Scheme are charged to the profit and loss account as incurred. The Retirement Scheme operates in a similar way to the MPF Scheme, except that when an employee leaves the Retirement Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to make contributions for its employees who are registered as permanent residents in Mainland China. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Notes to Financial Statements

(At 31st March, 2004)

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No further business segment information is presented as the Group is solely engaged in the manufacture and sale of sportswear and garments.

The principal activity of the Group is the manufacture and trading of sportswear and garments. Each of the Group's geographical segments, based on the location of customers (the destination of sales), represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

- (a) Hong Kong
- (b) Mainland China
- (c) Japan
- (d) South Korea
- (e) Australia

In addition, segment assets and capital expenditure are further analysed by the geographical location of the assets (the origin of sales), where the Group's assets are located in different geographical areas from its customers and segment revenue from external customers or segment assets are 10% or more of the Group's total amount. There are two asset-based geographical segments, Hong Kong and Mainland China.

Notes to Financial Statements

(At 31st March, 2004)

4. SEGMENT INFORMATION (continued)

(i) Geographical segments based on the location of customers

Group - 2004							
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	South Korea HK\$'000	Australia HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:							
Sales to external customers	13,591	85,561	135,734	54,150	3,722	32,653	325,411
Other revenue	164	-	1,541	660	43	392	2,800
Total	<u>13,755</u>	<u>85,561</u>	<u>137,275</u>	<u>54,810</u>	<u>3,765</u>	<u>33,045</u>	<u>328,211</u>
Segment results	<u>3,918</u>	<u>22,458</u>	<u>19,764</u>	<u>10,775</u>	<u>938</u>	<u>5,782</u>	63,635
Interest and other unallocated income							806
Unallocated expenses							(26,569)
Profit from operating activities							37,872
Finance costs							(2,275)
Profit before tax							35,597
Tax							(3,511)
Net profit from ordinary activities attributable to shareholders							<u>32,086</u>
Segment assets	<u>9,008</u>	<u>27,142</u>	<u>44,335</u>	<u>16,714</u>	<u>2,912</u>	<u>12,574</u>	112,685
Unallocated assets							61,663
							<u>174,348</u>
Segment liabilities	<u>753</u>	<u>3,215</u>	<u>11,165</u>	<u>2,691</u>	<u>1,496</u>	<u>1,826</u>	21,146
Unallocated liabilities							62,840
							<u>83,986</u>
Other segment information:							
Depreciation	291	876	3,579	1,208	68	690	6,712
Unallocated amount							2,024
							<u>8,736</u>
Capital expenditure	548	1,034	7,465	1,739	1,059	1,386	13,231
Unallocated amount							1,909
							<u>15,140</u>

Notes to Financial Statements

(At 31st March, 2004)

4. SEGMENT INFORMATION *(continued)*

(i) Geographical segments based on the location of customers *(continued)*

Group – 2003

	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	South Korea HK\$'000	Australia HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:							
Sales to external customers	39,830	54,144	83,972	33,650	9,827	20,907	242,330
Other revenue	1,068	–	739	–	240	479	2,526
Total	40,898	54,144	84,711	33,650	10,067	21,386	244,856
Segment results	11,966	13,192	17,298	7,545	2,707	5,177	57,885
Interest and other unallocated income							201
Unallocated expenses							(22,312)
Profit from operating activities							35,774
Finance costs							(1,499)
Profit before tax							34,275
Tax							(3,444)
Net profit from ordinary activities attributable to shareholders							30,831
Segment assets	24,333	11,319	9,441	4,559	1,151	3,874	54,677
Unallocated assets							38,422
							93,099
Segment liabilities	1,861	1,171	3,576	1,587	299	932	9,426
Unallocated liabilities							45,681
							55,107
Other segment information:							
Depreciation	713	944	1,477	592	176	365	4,267
Unallocated amount							1,339
							5,606
Capital expenditure	2,013	4,014	4,084	1,717	422	1,027	13,277
Unallocated amount							20,312
							33,589

Notes to Financial Statements

(At 31st March, 2004)

4. SEGMENT INFORMATION *(continued)*

(ii) Geographical segments based on the location of assets

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
Group – 2004			
Year ended 31st March, 2004			
Segment assets	48,152	64,533	112,685
Capital expenditure	2,352	10,879	13,231
Unallocated amount			1,909
			15,140
Group – 2003			
Year ended 31st March, 2003			
Segment assets	43,358	11,319	54,677
Capital expenditure	9,263	4,014	13,277
Unallocated amount			20,312
			33,589

Notes to Financial Statements

(At 31st March, 2004)

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue is as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of goods	325,411	242,330
Other revenue		
Sale of samples	2,800	2,526
Interest income	288	126
Others	518	75
	3,606	2,727
	329,017	245,057

Notes to Financial Statements

(At 31st March, 2004)

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Note	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold		264,576	186,746
Auditors' remuneration		780	600
Depreciation*	14	8,736	5,606
Write off of fixed assets		103	–
Staff costs* (excluding directors' remuneration – note 7):			
Wages and salaries		62,395	48,097
Pension scheme contributions (defined contribution scheme)		1,351	1,431
Less: Forfeited contributions		(18)	(27)
Net pension scheme contribution		1,333	1,404
Total staff costs		63,728	49,501
Minimum lease payments under operating leases in respect of land and buildings*		3,680	3,162
Exchange losses, net		225	–

* Included in the respective balances are the following amounts which are also included in cost of inventories sold disclosed above:

	2004 HK\$'000	2003 HK\$'000
Depreciation	6,712	4,270
Staff costs	54,803	41,951
Minimum lease payments under operating leases in respect of land and buildings	2,841	2,357

Notes to Financial Statements

(At 31st March, 2004)

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance, is as follows:

	2004	Group
	HK\$'000	2003 HK\$'000
Fees	210	–
Other emoluments:		
Salaries, allowances and benefits in kind	2,328	2,815
Performance related bonuses	500	–
Pension scheme contributions	141	129
	3,179	2,944

Fees include HK\$140,000 (2003: nil) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	6	6
HK\$1,000,001 to HK\$1,500,000	1	1
	7	7

The directors' remuneration shown above does not include the estimated monetary value of the Group's owned premises provided rent-free to two executive directors of the Company during the year ended 31st March, 2004. The estimated rental value of such accommodation was approximately HK\$672,000 (2003: HK\$200,000) for the year ended 31st March, 2004.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

(At 31st March, 2004)

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2003: three) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees for the year are set out below:

	2004	Group
	HK\$'000	2003
		<i>HK\$'000</i>
Salaries, allowances and benefits in kind	742	824
Performance related bonuses	300	–
Pension scheme contributions	57	55
	1,099	879

The remuneration of both of the non-director, highest paid employees fell within the band of nil to HK\$1,000,000.

9. FINANCE COSTS

	2004	Group
	HK\$'000	2003
		<i>HK\$'000</i>
Interest on overdrafts and bank loans wholly repayable within five years	2,193	1,499
Interest on finance leases	82	–
	2,275	1,499

Notes to Financial Statements

(At 31st March, 2004)

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31st March, 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

During the year, Macau Complementary Tax has not been provided as the Group did not derive any assessable profits. During the year ended 31st March, 2003, Macau Complementary Tax has been calculated at the rate of 15.75% on the estimated assessable profits of certain wholly-owned subsidiaries of the Company.

汕頭市鷹美製衣有限公司 (“EN (Shantou)”) and Shantou SEZ Far East (International) Garments Factory Co., Ltd. (“FE (Shantou)”) are entitled to be exempted from enterprise income tax for the first two profit-making years and a 50% reduction in the enterprise income tax for the succeeding three years. Moreover, under the relevant tax laws and regulations in Mainland China, EN (Shantou) and FE (Shantou) may set off losses incurred by them in a financial year against profits made by them in the succeeding financial year or years, subject to a maximum of five financial years.

According to the confirmation obtained by the Group from the PRC tax bureau, the first profit-making year of both EN (Shantou) and FE (Shantou) is year ended 31st December, 2002.

	2004	Group
	HK\$'000	2003 HK\$'000
Current tax charge for the year:		
Hong Kong	3,400	1,995
Elsewhere	600	1,549
Deferred tax credit – note 24	–	(100)
Overprovision of current tax in respect of prior years	(489)	–
Total tax charge for the year	3,511	3,444

Notes to Financial Statements

(At 31st March, 2004)

10. TAX (continued)

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

	Hong Kong		Mainland China		Macau		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	Profit before tax	<u>28,061</u>		<u>7,423</u>		<u>113</u>		<u>35,597</u>
Tax at the statutory tax rate	4,911	17.5	1,113	15.0	18	15.75	6,042	17.0
Income not subject to tax	(1,386)	(4.9)	(313)	(4.2)	(18)	(15.75)	(1,717)	(4.8)
Expenses not deductible for tax	173	0.6	-	-	-	-	173	0.5
Adjustments in respect of current tax of previous years	(489)	(1.7)	-	-	-	-	(489)	(1.4)
Others	(298)	(1.1)	(200)	(2.7)	-	-	(498)	(1.4)
Tax charge at the Group's effective rate	<u>2,911</u>	<u>10.4</u>	<u>600</u>	<u>8.1</u>	<u>-</u>	<u>-</u>	<u>3,511</u>	<u>9.9</u>

Group – 2003

	Hong Kong		Mainland China		Macau		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	Profit before tax	<u>18,619</u>		<u>5,960</u>		<u>9,696</u>		<u>34,275</u>
Tax at the statutory tax rate	2,979	16.0	894	15.0	1,527	15.75	5,400	15.8
Income not subject to tax	(2,368)	(12.7)	(894)	(15.0)	-	-	(3,262)	(9.5)
Expenses not deductible for tax	930	5.0	-	-	-	-	930	2.7
Others	354	1.9	-	-	22	0.23	376	1.1
Tax charge at the Group's effective rate	<u>1,895</u>	<u>10.2</u>	<u>-</u>	<u>-</u>	<u>1,549</u>	<u>15.98</u>	<u>3,444</u>	<u>10.1</u>

Notes to Financial Statements

(At 31st March, 2004)

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31st March, 2004 dealt with in the financial statements of the Company was HK\$18,391,000 (period from 9th October, 2002 (date of incorporation) to 31st March, 2003: nil) (note 27).

12. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim – HK3 cents per ordinary share based on 200,000,000 shares in issue	6,000	–
Proposed final – HK3.5 cents per ordinary share based on 340,000,000 shares in issue	11,900	–
Dividend declared and paid by a subsidiary to its then shareholder prior to the Group Reorganisation	–	15,000
	17,900	15,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$32,086,000 (2003: HK\$30,831,000), and the weighed average of 188,328,767 (2003: 170,000,000) ordinary shares deemed to have been in issue during the year.

The weighted average number of shares used to calculate the earnings per share for the year ended 31st March, 2003 includes the pro forma issued share capital of the Company, comprising 1,000,000 shares issued nil paid on incorporation of the Company, 27,000,000 shares issued as consideration for the acquisition of the entire issued share capital of Jespar and the capitalisation issue of 142,000,000 shares, as further detailed in note 25 to the financial statements.

Diluted earnings per share amounts for the years ended 31st March, 2004 and 2003 have not been disclosed as no diluting events existed during these years.

Notes to Financial Statements

(At 31st March, 2004)

14. FIXED ASSETS

Group

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation:					
At beginning of year	20,180	9,389	20,993	4,615	55,177
Additions	87	2,177	9,451	3,425	15,140
Write off	–	–	(123)	(16)	(139)
Surplus on revaluation	3,861	–	–	–	3,861
At 31st March, 2004	<u>24,128</u>	<u>11,566</u>	<u>30,321</u>	<u>8,024</u>	<u>74,039</u>
Analysis of cost or valuation:					
At cost	–	11,566	30,321	8,024	49,911
At 31st March, 2004 valuation	<u>24,128</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>24,128</u>
	<u>24,128</u>	<u>11,566</u>	<u>30,321</u>	<u>8,024</u>	<u>74,039</u>
Accumulated depreciation:					
At beginning of year	524	5,288	8,674	2,322	16,808
Provided during the year	1,001	2,050	4,650	1,035	8,736
Write off	–	–	(35)	(1)	(36)
Written back on revaluation	(1,525)	–	–	–	(1,525)
At 31st March, 2004	<u>–</u>	<u>7,338</u>	<u>13,289</u>	<u>3,356</u>	<u>23,983</u>
Net book value:					
At 31st March, 2004	<u>24,128</u>	<u>4,228</u>	<u>17,032</u>	<u>4,668</u>	<u>50,056</u>
At 31st March, 2003	<u>19,656</u>	<u>4,101</u>	<u>12,319</u>	<u>2,293</u>	<u>38,369</u>

Notes to Financial Statements

(At 31st March, 2004)

14. FIXED ASSETS (continued)

The Group's leasehold land and buildings were revalued at 31st March, 2004 by Greater China Appraisal Limited, independent professionally qualified valuers, at open market value, based on their existing use. A revaluation surplus of HK\$5,386,000 resulting therefrom has been credited to the asset revaluation reserve.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$18,743,000 (2003: HK\$19,656,000).

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery at 31st March, 2004, amounted to HK\$2,164,000 (2003: nil).

The Group's leasehold land and buildings as at 31st March, 2004 are held under the following lease terms:

	2004 HK\$'000	2003 HK\$'000
Long term leases outside Hong Kong	1,949	2,150
Medium term leases in Hong Kong	18,600	14,583
Medium term leases outside Hong Kong	3,579	2,923
	24,128	19,656

At 31st March, 2004, one of the Group's leasehold land and buildings with net book value of approximately HK\$18,600,000 (2003: HK\$14,583,000) was pledged to secure mortgage loan facilities granted to the Group (note 22).

Two of the Group's properties with net book value of HK\$20,720,000 in aggregate have been provided as rent-free accommodation to two executive directors of the Company during the year (note 7).

Notes to Financial Statements

(At 31st March, 2004)

15. LONG TERM INVESTMENTS

	2004	Group
	HK\$'000	2003 HK\$'000
Unlisted investment funds, at fair value	4,500	4,276

A revaluation surplus of HK\$224,000 (2003: HK\$62,000) has been credited to the asset revaluation reserve during the year.

As at 31st March, 2004, the unlisted investment funds were pledged as security for the banking facilities granted to the Group (note 22).

16. INVESTMENTS IN SUBSIDIARIES

	2004	Company
	HK\$'000	2003 HK\$'000
Unlisted investments, at cost	43,368	–

The balances with subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of subsidiaries of the Company are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Jespar Age Limited	BVI/Hong Kong	US\$1,000	100	–	Investment holding
Eagle Nice Development Limited	Hong Kong	Ordinary HK\$2; Non-voting deferred HK\$10,000 (Note (a))	–	100	Manufacture and trading of sportswear and garments

Notes to Financial Statements

(At 31st March, 2004)

16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Far East (International) Garment Limited	Hong Kong	Ordinary HK\$2; Non-voting deferred HK\$10,000 (Note (a))	–	100	Manufacture and trading of sportswear and garments
Nittsukou Limited	BVI/Hong Kong	US\$1,000	–	100	Dormant
Goldfish Investments Limited	Samoa/Macau	US\$1,000	–	100	Dormant
Good Wish Enterprises Limited	Samoa/Macau	US\$1,000	–	100	Dormant
Metrogold Profits Limited	Samoa/Macau	US\$1,000	–	100	Dormant
汕頭市鷹美製衣有限公司 (Note (b))	PRC/ Mainland China	HK\$7,000,000 (Note (c))	–	100	Manufacture and trading of sportswear and garments
Shantou SEZ Far East (International) Garments Factory Co., Ltd. 汕頭經濟特區遠東 (國際)製衣廠有限公司 (Note (b))	PRC/ Mainland China	HK\$15,000,000	–	100	Manufacture and trading of sportswear and garments

Notes to Financial Statements

(At 31st March, 2004)

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

- (a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up (other than the nominal amount paid up or credited as paid up on such shares, after the sum of HK\$100,000,000,000 per ordinary share has been distributed to the holders of the ordinary shares of the company in such winding-up).
- (b) EN (Shantou) and FE (Shantou) are registered as wholly-foreign owned enterprises under the PRC law.
- (c) On 17th September, 2003, the application for the increase of registered capital of EN (Shantou) from HK\$7 million to HK\$9.5 million was approved by the relevant authority in the PRC. Subsequent to the balance sheet date, the additional capital contribution of HK\$2.5 million has been fully paid up on 10th May, 2004.

17. INVENTORIES

	2004	Group
	HK\$'000	2003
		<i>HK\$'000</i>
Raw materials	15,986	4,310
Work in progress	27,307	7,692
Finished goods	1,227	5,495
	<hr/> 44,520 <hr/>	<hr/> 17,497 <hr/>

No inventories were carried at net realisable value at the balance sheet date (2003: nil).

Notes to Financial Statements

(At 31st March, 2004)

18. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 30 days. Overdue balances are regularly reviewed by senior management of the Group.

An aged analysis of the accounts and bills receivable as at the balance sheet date, based on invoice date, is as follows:

	2004	Group
	HK\$'000	2003
		<i>HK\$'000</i>
Within 30 days	28,022	18,496
Between 31 to 60 days	3,928	19
Between 61 to 90 days	810	186
Over 90 days	709	60
	<hr/> 33,469 <hr/>	<hr/> 18,761 <hr/>

Notes to Financial Statements

(At 31st March, 2004)

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances		31,358	913	26,151	–
Time deposits		5,518	6,479	–	–
		36,876	7,392	26,151	–
Less: Time deposits pledged for overdrafts and trade financing facilities	22	(5,518)	(6,479)	–	–
Cash and cash equivalents		31,358	913	26,151	–

As at the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$3,139,000 (2003: HK\$780,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 90 days	19,704	5,814
Between 91 to 180 days	1,384	3,543
Between 181 to 365 days	58	59
Over 365 days	–	10
	21,146	9,426

Notes to Financial Statements

(At 31st March, 2004)

21. INTEREST-BEARING BANK BORROWINGS, SECURED

	2004	Group
	HK\$'000	2003
		HK\$'000
Secured bank overdrafts repayable on demand	7,391	3,932
Secured mortgage loans repayable:		
Within one year	2,305	2,239
In the second year	2,371	2,304
In the third to fifth years, inclusive	1,009	3,380
	5,685	7,923
Secured trust receipt loans repayable within one year	18,931	8,703
Other secured bank loans repayable:		
Within one year	3,929	4,806
In the second year	1,088	1,280
	5,017	6,086
	37,024	26,644
Portion classified as current liabilities	(32,556)	(19,680)
Long term portion	4,468	6,964

22. BANKING FACILITIES

As at 31st March, 2004, the Group's banking facilities were secured by the following:

- (i) one of the leasehold land and buildings of the Group (note 14);
- (ii) the unlisted investment funds of the Group (note 15);
- (iii) pledged bank deposits of the Group (note 19);
- (iv) corporate guarantees executed by the Company to the extent of HK\$105 million; and
- (v) unlimited corporate guarantees executed by two subsidiaries.

Notes to Financial Statements

(At 31st March, 2004)

23. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its garment manufacturing business. These leases are classified as finance leases and have remaining lease terms ranging from two to three years.

At 31st March, 2004, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2004 HK\$'000	Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2003 HK\$'000
Amounts payable:				
Within one year	752	–	730	–
In the second year	620	–	572	–
In the third to fifth years, inclusive	700	–	600	–
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum finance lease payments	2,072	–	1,902	–
	<hr/>	<hr/>	<hr/>	<hr/>
Future finance charges	(170)	–		
	<hr/>	<hr/>		
Total net finance lease payables	1,902	–		
	<hr/>	<hr/>		
Portion classified as current liabilities	(730)	–		
	<hr/>	<hr/>		
Long term portion	1,172	–		
	<hr/>	<hr/>		

Notes to Financial Statements

(At 31st March, 2004)

24. DEFERRED TAX LIABILITIES

Group

	Accelerated tax depreciation <i>HK\$'000</i>	Asset revaluation <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2002	910	–	910
Deferred tax credited to the profit and loss account during the year (<i>note 10</i>)	(100)	–	(100)
At 31st March, 2003 and 1st April, 2003	810	–	810
Deferred tax debited to equity during the year (<i>note 27</i>)	–	400	400
At 31st March, 2004	810	400	1,210

At 31st March, 2004, there is no significant unrecognised deferred tax liability (2003: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31st March, 2004 by HK\$400,000 (2003: nil).

25. SHARE CAPITAL

	2004 HK\$'000	Company 2003 <i>HK\$'000</i>
Authorised: 10,000,000,000 (2003: 38,000,000) ordinary shares of HK\$0.01 each	100,000	380
Issued and fully paid: 200,000,000 ordinary shares of HK\$0.01 each (2003: nil)	2,000	–

Notes to Financial Statements

(At 31st March, 2004)

25. SHARE CAPITAL (continued)

The following changes in the authorised and issued share capital of the Company took place during the period from 9th October, 2002 (date of incorporation) to 31st March, 2004:

	Notes	Number of ordinary shares of HK\$0.01 each '000	Nominal value of ordinary shares HK\$'000
<u>Authorised:</u>			
Upon incorporation	(i)	38,000	380
Increase in an authorised share capital	(ii)	9,962,000	99,620
At 31st March, 2004		10,000,000	100,000
<u>Issued:</u>			
Alloted and issued as nil paid	(iii)	1,000	–
On acquisition of Jespar			
– new issue of shares	(iv)	27,000	270
– nil paid shares credited as fully paid	(iv)	–	10
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	(v)	142,000	–
Pro forma issued share capital as at 31st March, 2003		170,000	280
Capitalisation of share premium account as set out above	(v)	–	1,420
New issue of shares	(vi)	30,000	300
At 31st March, 2004		200,000	2,000

Notes to Financial Statements

(At 31st March, 2004)

25. SHARE CAPITAL (continued)

Notes:

- (i) Upon incorporation of the Company, the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.
- (ii) Pursuant to a resolution passed on 6th August, 2003, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 9,962,000,000 ordinary shares of HK\$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.
- (iii) On 28th October, 2002, an aggregate of 1,000,000 shares of HK\$0.01 each were allotted and issued nil paid.
- (iv) Pursuant to the same resolution in (ii) above, on 6th August, 2003, 27,000,000 new shares of HK\$0.01 each in the Company were allotted and issued, credited as fully paid, and the existing 1,000,000 shares of HK\$0.01 each were credited as fully paid, at par, in consideration of and in exchange for the acquisition of the entire issued share capital of Jespar pursuant to the Group Reorganisation.
- (v) Pursuant to the same resolution in (ii) above, a total of 142,000,000 shares of HK\$0.01 each were allotted and issued as fully paid, by way of capitalisation of an amount of HK\$1,420,000 standing to the credit of the share premium account of the Company, to the holders of shares in the Company whose names appear on the register of members of the Company at the close of business on 11th August, 2003 in proportion to their then existing shareholdings in the Company, conditional upon the share premium account being credited as a result of the new issue and placing of shares as detailed in (vi) below.
- (vi) On 20th August, 2003, a total of 30,000,000 new shares of HK\$0.01 each in the Company were issued at a price of HK\$1.00 each to the public by way of new issue and placing of shares pursuant the listing of the Company's shares on the Main Board of the Stock Exchange, for a total cash consideration, before expenses, of HK\$30,000,000.

26. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group and customers of the Group. The Scheme became effective on 6th August, 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Notes to Financial Statements

(At 31st March, 2004)

26. SHARE OPTION SCHEME *(continued)*

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of shares.

No share options had been granted under the Scheme as at 31st March, 2004 or up to the date of approval of these financial statements. As at the date of approval of these financial statements, 20,000,000 shares are available for issue under the Scheme, representing 10% of the issued share capital of the Company at that date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Notes to Financial Statements

(At 31st March, 2004)

27. RESERVES

Group

	Share premium	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Asset revaluation reserve	Retained profits	Total
Notes	HK\$'000	HK\$'000 (Note (a))	HK\$'000 (Note (b))	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2002	-	43	-	(2,712)	(155)	24,915	22,091
Surplus on revaluation	-	-	-	-	62	-	62
Arising on Group Reorganisation	-	(272)	-	-	-	-	(272)
Net profit for the year	-	-	-	-	-	30,831	30,831
Transfer to reserve	-	-	842	-	-	(842)	-
Dividend paid by a subsidiary	12	-	-	-	-	(15,000)	(15,000)
At 31st March, 2003 and 1st April, 2003	-	(229)	842	(2,712)	(93)	39,904	37,712
Issue of shares	25	29,700	-	-	-	-	29,700
Share issue expenses	-	(8,926)	-	-	-	-	(8,926)
Capitalisation issue	25	(1,420)	-	-	-	-	(1,420)
Surplus on revaluation	-	-	-	-	5,610	-	5,610
Deferred tax charged	24	-	-	-	(400)	-	(400)
Net profit for the year	-	-	-	-	-	32,086	32,086
Transfer to reserve	-	-	874	-	-	(874)	-
Interim dividend	12	-	-	-	-	(6,000)	(6,000)
Proposed final dividend	12	-	-	-	-	(11,900)	(11,900)
At 31st March, 2004	19,354	(229)	1,716	(2,712)	5,117	53,216	76,462

Notes to Financial Statements

(At 31st March, 2004)

27. RESERVES (continued)

Company

	Notes	Share premium HK\$'000 (Note (a))	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2003		–	–	–	–
Arising on Group Reorganisation		–	43,088	–	43,088
Issue of shares	25	29,700	–	–	29,700
Capitalisation issue	25	(1,420)	–	–	(1,420)
Share issue expenses		(8,926)	–	–	(8,926)
Net profit for the year		–	–	18,391	18,391
Interim dividend	12	–	–	(6,000)	(6,000)
Proposed final dividend	12	–	–	(11,900)	(11,900)
At 31st March, 2004		19,354	43,088	491	62,933

Notes:

- (a) The capital reserve of the Group represents the difference between the aggregate of the nominal value of the share capitals of the subsidiaries acquired by the Company pursuant to the Group Reorganisation as set out in note 1 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor and the existing 1,000,000 shares of HK\$0.01 credited at fully paid, at par.

The capital reserve of the Company represents the excess of the then consolidated net assets of the subsidiaries acquired by the Company pursuant to the same reorganisation over the nominal value of the share capital of the Company issued in exchange therefor. Under the Companies Law of the Cayman Islands, the capital reserve may be distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

- (b) In accordance with the relevant PRC regulations, the companies now comprising the Group which are registered in the PRC are required to transfer 10% of their profits after tax, as determined under the PRC accounting regulations, to the statutory surplus reserve, until the balance of the fund reaches 50% of their respective registered capitals. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus reserve may be used to offset against accumulated losses.

Notes to Financial Statements

(At 31st March, 2004)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The Group has the following major non-cash transactions during the year:

- (i) During the year, the Group Reorganisation involved the acquisition of Jespar by the issue of shares of the Company, further details of which are set out in notes 1 and 25 to the financial statements.
- (ii) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of approximately HK\$2,303,000 (2003: nil).
- (iii) During the year ended 31st March, 2003, a dividend of HK\$10,000,000 distributed by certain subsidiaries of the Company was settled through the current account with a director.

29. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities of the Group not provided for were as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	-	927	-	-
Guarantees given to in connection with credit facilities granted to subsidiaries	-	-	105,513	30,000
	-	927	105,513	30,000

As at 31st March, 2004, the banking and finance lease facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$35.9 million (2003: HK\$11.1 million).

Notes to Financial Statements

(At 31st March, 2004)

30. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises and factories under operating lease arrangements, with leases negotiated for terms ranging from two to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Within one year	4,623	3,274
In the second to fifth years, inclusive	5,774	3,430
	10,397	6,704

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments at the balance sheet date:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Capital commitments, contracted but not provided for:		
Purchases of fixed assets	130	63

The Company did not have any significant commitments at the balance sheet date (2003: nil)

Notes to Financial Statements

(At 31st March, 2004)

32. POST BALANCE SHEET EVENTS

- (i) On 3rd March, 2004, the Company entered into a conditional subscription agreement (the "Subscription Agreement") with Great Pacific Investments Limited (the "Subscriber"), a wholly-owned subsidiary of Yue Yuen Industrial (Holdings) Limited, in relation to the subscription by the Subscriber of 105,000,000 new shares at HK\$1.06 per share (total subscription price amounted to HK\$111,300,000) and a convertible note at a subscription price of HK\$207,060,000, which would be convertible into 87,000,000 new shares at the initial conversion price of HK\$2.38 per share (subject to adjustment). On the same day, the Company also entered into a conditional placing agreement (the "Placing Agreement") with Barits Securities (Hong Kong) Limited ("Barits"), pursuant to which Barits agreed to procure places, on a fully underwritten basis, and the Company agreed to issue an aggregate of 35,000,000 new shares at HK\$1.06 per share. The proceeds from the new shares under the Subscription Agreement and the Placing Agreement were satisfied by cash upon completion of these agreements.

The Subscription Agreement and the Placing Agreement have been approved by the shareholders in the extraordinary general meeting and the Listing Committee of the Stock Exchange and these agreements were completed on 16th April, 2004.

Further details of the Subscription Agreement and this Placing Agreement are set out in the circular of the Company dated 24th March, 2004.

- (ii) On 19th June, 2004, Yue Mei (Shantou) Garment Manufacturing Co. Ltd., a wholly-owned subsidiary of the Company established subsequent to the balance sheet date (the "Purchaser"), entered into an agreement (the "Provisional Agreement") with Shantou Special Economic Zone Cheng Di Industrial Village Development Co. Ltd. (the "Seller"), an independent corporation established in the PRC, whereby the Seller will construct and sell, and the Purchaser will purchase a new production plant which will be located at the 15th Street District, Cheng Di Industrial Village, Shantou Special Economic Zone (the "Land"), free from encumbrances, with a cash consideration of approximately RMB102 million (approximately HK\$96.4 million).

The consideration for the above transaction will be payable in cash as follows:

- (i) as to RMB20 million (approximately HK\$18.9 million) to be placed in an escrow account, in the name of the Purchaser, within 30 days after the satisfactory completion of the Provisional Agreement;

Notes to Financial Statements

(At 31st March, 2004)

32. POST BALANCE SHEET EVENTS *(continued)*

(ii) *(continued)*

- (ii) as to RMB25 million (approximately HK\$23.6 million) within 5 days after the signing of the formal sales and purchase agreement which is expected to take on or before 28th February, 2005;
- (iii) as to RMB25 million (approximately HK\$23.6 million) within 5 days after the examination and acceptance of the new production plant by the relevant PRC authorities;
- (iv) as to RMB31 million (approximately HK\$29.3 million) after the issue of the Real Estate Title Certificate to the Purchaser; and
- (v) as to the balance of RMB1 million (approximately HK\$1.0 million) upon the expiry of 2 years after the examination and acceptance of the new production plant by the relevant PRC authorities.

Up to the date of this report, the Group has placed the first RMB20 million in the escrow account.

Further details of the above transaction are set out in the announcement of the Company dated 19th June, 2004.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23rd July, 2004.