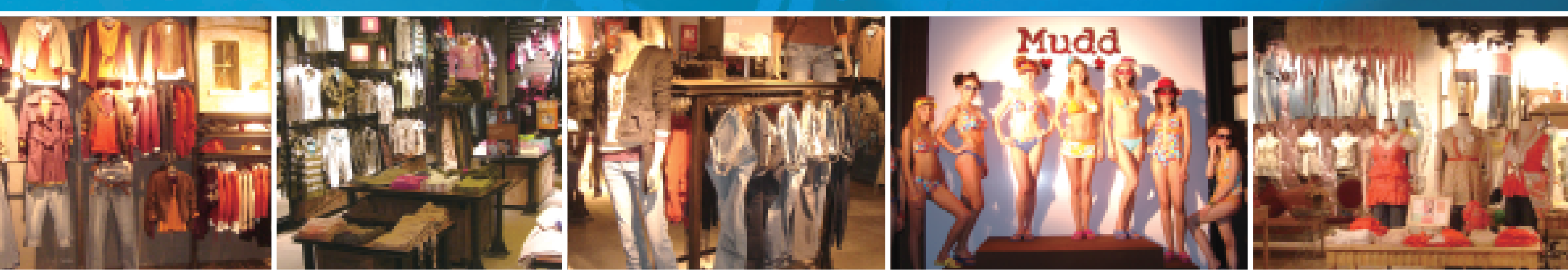
德發集團
TACK FAT GROUP

annual report 2007 年報

Leading the world's
Swimwear &
Casual Wear



德發集團國際有限公司
Tack Fat Group International Limited
(股份代號 Stock Code: 0928)

Contents

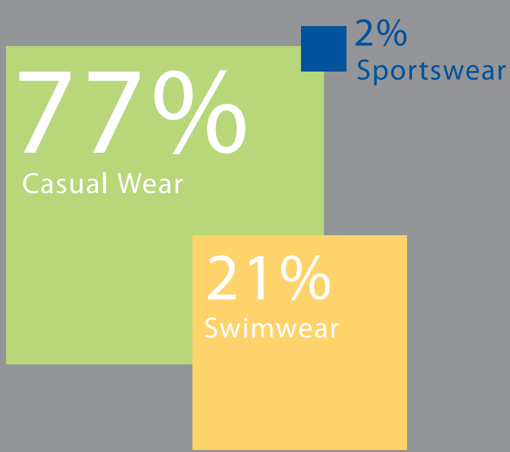
Financial Highlights

FIVE YEARS FINANCIAL HIGHLIGHTS

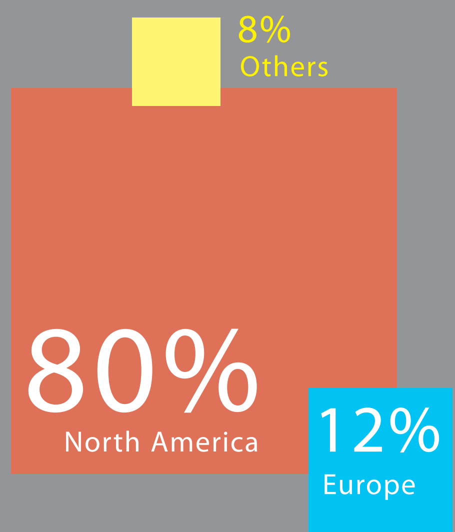
(Expressed in Hong Kong dollars)

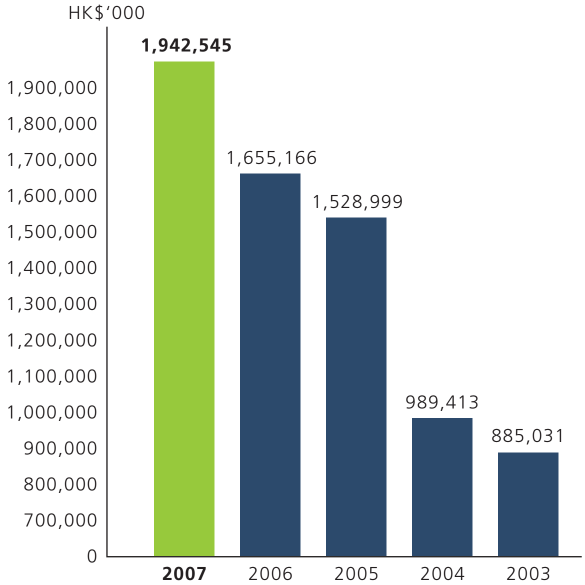
	Year ended 31 March				
	2007 ('000)	2006 ('000)	2005 ('000)	2004 ('000)	2003 ('000)
Turnover	**1,942,545**	1,655,166	1,528,999	989,413	885,031
Gross profit	**526,831**	438,417	364,800	324,502	292,085
Profit from operations	**279,084**	262,346	194,194	148,123	134,131
Profit attributable to shareholders	**314,639**	132,626	155,539	121,736	104,800
Earnings per share					
– Basic	**17.64 cents**	8.74 cents	10.71 cents	8.82 cents	8.05 cents
– Diluted	**16.07 cents**	8.21 cents	9.81 cents	8.37 cents	7.92 cents

Turnover Breakdown by Products

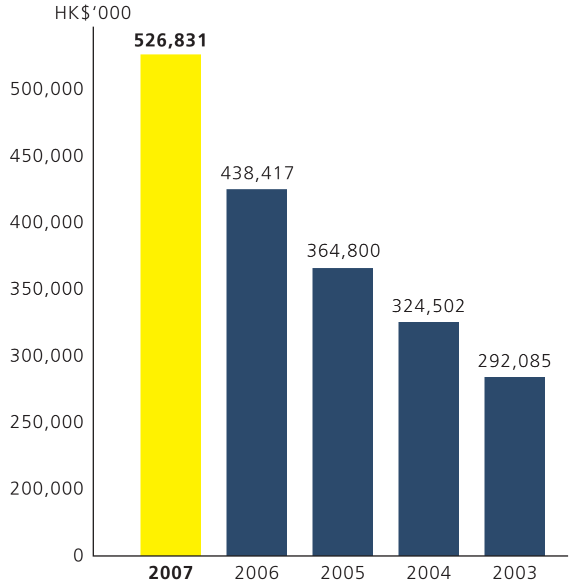


Turnover Breakdown by Regions

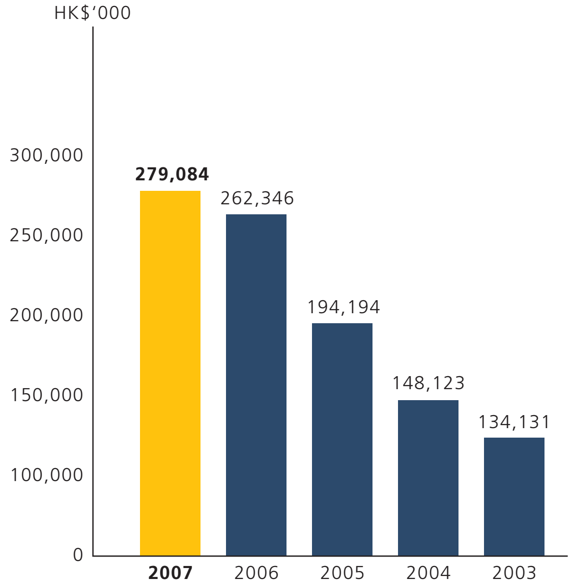




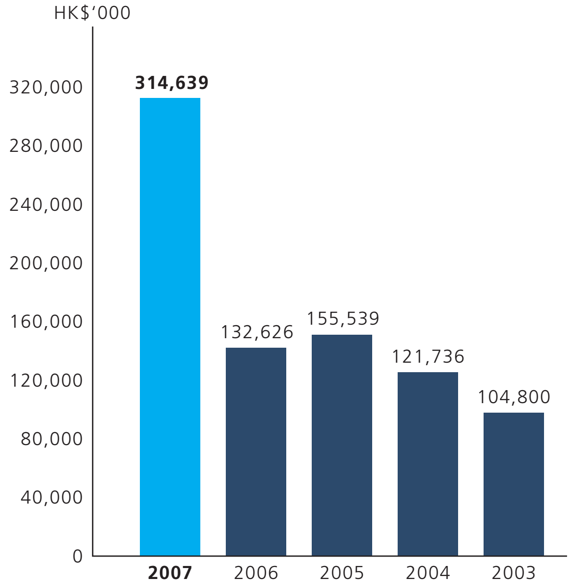
Turnover



Gross profit



Profit from operations



Profit attributable to shareholders

Chairman's Statement

Chairman's Statement

Tack Fat will strive to provide quality and fashionable swimwear and casual wear worldwide to further solidify our industry position.

Mr. Kwok Wing, ***CHAIRMAN***

Dear Shareholders,

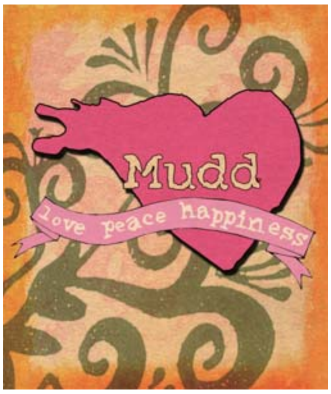
The year ended 31 March 2007 ("FY2007") was a remarkable one for Tack Fat Group International Limited ("Tack Fat" or the "Group") as we saw tremendous growth and strategic achievements. The Group continues to provide fashionably designed, high-quality products and services to many of the world's leading brand owners and customers. The Group had a successful year, with turnover and net profit attributable to shareholders growing strongly year-on-year by 17.4% and 137.2%, respectively.

Given this impressive performance, the Board has recommended a final dividend of HK2 cents per share. This brings the total dividend for the year to HK3.2 cents per share (FY2006: HK3.01 cents per share).

Today, we develop a wide array of products in the swimwear and casual wear categories for world renowned brand-owners and premium customers. With our commitment to growing and ensuring our leading edge in the global apparel manufacturing industry, we will continue to expand and upgrade our production facilities in both Cambodia and China so as to better serve the needs of our existing and new customers.

Our efficient dual production facilities in Cambodia and China allow high flexibility for our customers. They also minimize country risk and uncertainties relating to the potential trade disputes between China and the US. At present, our production plants have a total production capacity of 2,857,000 dozens per year, making us one of the largest ODM/OEM apparel manufacturers in the region.

The Group marked an important milestone in our retailing business in China in FY2007. During the year, we successfully achieved our retail expansion target by opening new "Mudd" outlets in Mainland China and reaching a total of 60 outlets that are located in more than 20 key mainland cities nationwide. As at 31 March 2007, the retail sales performance of "Mudd" was well above expectations, thus achieving strong sales growth and profit contribution for the Group.



In April 2006, Iconix Brand Group, Inc ("Iconix"; NASDAQ: ICON) became our business partner of the "Mudd" brand worldwide, through the acquisition of the "Mudd" brand worldwide (excluding Greater China). The "Mudd" brand will be aggressively marketed and promoted in North America under the strong brand management capabilities of Iconix. Most importantly, our "Mudd" retail business will benefit from the increasing market awareness and brand equity of "Mudd" globally.

In addition, we have added another apparel brand to our retailing arm by acquiring a 90% interest in "XXEZZ" in June 2007. "XXEZZ" is one of the leading apparel brands in the PRC, specializing in women's and men's casual smart wear. Its retail network covers most of major PRC northeastern cities, with over 200 self-operated and franchised retail apparel outlets. With our distinctive brand images, we expect "Mudd" and "XXEZZ" to create a unique market position for us as we serve different market segments and provide for varied customer lifestyles.

We believe the momentum of the retail market will remain robust in the coming years. Rising household incomes will result in increasing spending power and stronger demands for fashionably designed, high-quality apparel products, and can only positively affect our retailing business in Mainland China. As a result, the Group will continue to pursue an active expansion strategy and systematically build its retail network in Mainland China. In order to further penetrate into the first and second-tier cities of Mainland China, we plan to expand our chain store network (including flagship stores and concessionary counters) to a total of 500 points-of-sale for "Mudd" and "XXEZZ" by the end of FY2008. These points-of-sale will either be self-owned or managed through franchising arrangements. Our ultimate goal is to expand our retailing business network to over 1,000 points of sale by March 2010.

Apart from enhancing our market presence, we will further strengthen our retail operation and efficiency by product-mix optimization, effective marketing campaigns and staff training. We believe that through these initiatives, our retailing business will be able to leverage its business scale to achieve greater profitability and improve customer loyalty.

Finally, on behalf of the Group, I would like to take this opportunity to extend my deepest gratitude to our staff for their hard work and dedication. Additionally, I would like to thank our shareholders, business partners and fellow directors for their support and contribution. We are confident of capturing the tremendous growth opportunities that are evidencing themselves in the apparel manufacturing and retailing market in FY2008 and beyond. In this endeavour, the Board of Directors and our management team will work diligently towards creating valuable returns for our investors and shareholders.

For and on behalf of the Board,

KWOK Wing
Chairman

Hong Kong, 1 August 2007

Management Discussion and Analysis




Business Review

Results Summary

Revenue of Tack Fat (the "Group") was HK$1,943 million for the year ended 31 March 2007 ("FY2007"), representing an impressive year-on-year growth of 17.4%. The increase was attributable to both our organic growth with existing premium brand-owners and customers and the development of the retail and brand management business in China.

The Group's overall gross profit for the year was HK$527 million as compared to HK$438 million in FY2006 while profit from operations reached HK$279 million, representing an increase of 6.4% from the same period last year.

The overall gross profit margin and net profit margin were 27.1% and 16.2% as compared to 26.5% and 8% respectively in FY2006. These improvements were as a result of continued efforts towards stringent cost control and the introduction of the high-margin retail business in China.

Net profit for the year attributable to equity holders was HK$315 million, representing a substantial year-on-year increase of 137.2%.

Dividend

The board resolved that a final dividend of HK2 cents per share for the year ended March 31, 2007, subject to approval at the shareholders' annual general meeting. Together with the interim dividends of HK1.2 cents, the total dividend for the year will be HK3.2 cents per share (FY2006: HK3.01 cents).

Apparel Manufacturing Business

The Group's core business of apparel manufacturing recorded a total turnover of HK$1,853 million, a healthy double-digit year-on-year increase of 12%. Casual wear and swimwear, the Group's two core products,

contributed 77% and 21% of the total turnover respectively, while sportswear made up the remaining 2%. ODM and OEM businesses totally accounted for 84% of the Group's total turnover respectively, while the subcontracting business of Mudd (USA) LLC ("Mudd USA") accounted for the remaining 11%. The Group continued to maintain a balanced and global client base of premium brand-owners and customers, of which the top five customers accounted for 63% of the total turnover for the year. In addition, the US remained our major market, accounting for about 80% of our total turnover. It was followed by Europe and other regional markets, representing 12% and 8% of our total turnover respectively.

The increase in total turnover was mainly attributable to the outsourcing production strategy from US and EU brand-owners and the Group's scalable production facilities in both Cambodia and China. As of 31 March 2007, the Group's scalable and highly efficient production bases in Cambodia and China had a gross floor area of over 130,000 sq.m., a skilled workforce of over 19,000 employees and an overall utilization rate of over 97%. These figures highlight the fact that the Group had successfully executed its production expansion plan in both countries with a view to meeting increased demand for quality apparel from premium brand-owners and customers. As a result, the Group's total production capacity grew by approximately 21% to 2,857,000 dozens as of 31 March 2007, including 1,268,000 dozens of swimwear, 1,513,000 dozens of casual wear and 76,000 dozens of sportswear. Order flow was stable throughout the year and the overall sales volume reached 3,975,000 dozens, of which the sales volume of swimwear, casual wear and sportswear were 1,234,000 dozens, 2,677,000 dozens and 64,000 dozens respectively, representing respective year-on-year increases of 9%, 27% and 16%.

Tack Fat's production volume and sales orders also saw growth as a result of the Group continuing to benefit from the prevailing trend of outsourcing to Asian countries despite challenges and uncertainties relating to the ongoing trade disputes between China and the US. This is because unlike other garment manufacturers who were and continue to be exposed to quota risks and other uncertainties brought about by concentrating their production facilities in China, Tack Fat has successfully minimized this geographic risk through its

unique production strategy of having dual production facilities in Cambodia and China. Currently, Cambodia is home to our core manufacturing facilities, accounting for more than 70% of the Group's total production capacity.

In addition, an abundant labour supply and relatively lower costs there have not only further sharpened the Group's competitive edge in the market but have enabled stable production and timely delivery of quality apparel products to our customers without any export quota or trade dispute issues. Finally, despite an upsurge in raw material costs, wage inflation and the appreciation of the Renminbi, the Group has maintained an effective control on costs.

Wholesale Business

The Group has a 50% stake in Sino Legend Limited ("Sino Legend") which directly holds a 80% interest in Mudd USA. With effectively a 40% indirect interest in Mudd USA, the Group engaged in the design and wholesale of girls' and young women's apparel under the brand name "Mudd" in the US.

The wholesale business ran smoothly during the year, mainly due to the improved market conditions. In April 2006, Iconix Brand Group, Inc ("Iconix"; NASDAQ: ICON) acquired marketing, licensing, brand management and trademarks of the "Mudd" brand worldwide (excluding Greater China) from Mudd USA. Upon the acquisition, Mudd USA continued to own exclusive rights in the design, manufacturing, sale and distribution of "Mudd" apparel in the Greater China region.

Retailing Business in China

As the China retail market continues to grow at a rapid pace coupled with the rising purchasing power of the country's population, we have leveraged on various market opportunities in order to achieve further expansion and profitability.

The performance of "Mudd" retail operation in the first year was well above Group expectations, making the retailing business an important growth driver for Tack Fat. The Group recorded revenue of HK$89 million from Mudd retailing business.

As at 31 March 2007, the number of directly managed "Mudd" retail outlets reached a total of 60, covering more than 20 mainland cities nationwide. Of the outlets, 3 were flagship stores while 57 were shops. Geographically, the Group had outlets covered key cities in Mainland China, including Beijing, Shanghai, Tianjin, Shenyang, Chengdu, Chongqing, Wuhan and Nanjing.

With an eye on changing trends in consumer behavior and in order to better match our customers' buying habits, all "Mudd" stores are strategically located in fashionable shopping malls in residential and commercial areas that have high traffic, such as Beijing Oriental Plaza, New World Department Stores, Parkson Department Stores, Printemps-Shanghai and Jiu Guang Department Store. Our presence in these prime locations enables us to have a deeper market penetration and higher brand visibility.

The Group took a series of marketing initiatives to proactively promote the "Mudd" brand in China. Such initiatives include "come in and feel it" approach and point-of-sales promotions that aim to extend our market reach and boost our brand image cost-effectively.

Future Prospects

Although quotas have again been imposed by the US and Europe, China's textile and clothing exports continue to show healthy growth. However, other developing countries in Asia have started to gain ground thanks to significantly lower production costs. Cambodia, along with China, is one of the true winners in the region. In 2006, Cambodia took advantage of a strong rise in shipments (in US$ terms) to both EU and US markets with year-on-year growth of 19% and 25% respectively, according to Global Trade Atlas and Eurostat.

With a backdrop of escalating fuel prices, an appreciating Renminbi and a reduction in tax rebates for PRC export products, the management will continue to closely monitor the situation in the coming years. However, as market consolidation and global outsourcing trends further intensify, the management remains extremely positive and optimistic with regard to Tack Fat's business performance and future outlook.

Looking ahead, Tack Fat will continue to expand its production capability and improve its production efficiency in Cambodia and

China in order to meet market demands. In this endeavour, the Group plans to invest HK$100 million in capital expenditures in the coming year and at the production facilities in Cambodia, the Group has already commenced an expansion plan with a view to increase overall production capacity by 15% by the end of March 31, 2008 ("FY2008"). The Group will also upgrade its production plants and machinery to enhance product offerings and production efficiency. All of these additions will help to boost the manufacturing capabilities and operating efficiency of the Group so as to sustain its competitive advantage and future growth.

In addition, the management will continue to optimize its production mix in both Cambodia and China and fully capitalize on the advantages it enjoys in Cambodia, such as a tariff and quota-free environment and low-cost production.

In order to accommodate China's dynamic apparel retailing market, the Group will focus on achieving high performance standards and executing timely store expansion initiatives there. The Group expects its "Mudd" retail outlets in China to reach 200 by the end of FY2008 through a mix of direct ownership and franchising arrangements.

Following the success of its "Mudd" outlets, the Group added another up-and-coming apparel brand "XXEZZ" to its retailing business in China through the acquisition of the Best Favour Group in June 2007 at a consideration of HK$330 million. The Best Favour Group is principally engaged in the design and management of its "XXEZZ" brand of smart casual wear, which is one of the leading apparel brands in the PRC. With over 200 self-operated and franchised retail apparel outlets, covering all major PRC northeastern cities, such as Beijing, Shanghai, Tianjin, Dalian and Harbin, the "XXEZZ" brand already has a significant presence. The Best Favour Group plans to expand its sales network to 300 stores by the end of FY2008 through franchising and direct ownership.

With "Mudd" and "XXEZZ", Tack Fat's retailing business is expected to operate more than 500 retail outlets in China by the end of FY2008, thus making the retailing arm a major growth driver of the Group in the years to come.

Finally, the Group will continue to deploy its efforts towards enhancing and enriching its product portfolio in order to better satisfy the demand of its targeted segments and bring young and trendy lifestyle fashions at affordable prices to a new generation of consumers in Greater China.

Financial Review

The Board of Directors resolved to declare a final dividend of 2.0 cents per share together with an interim dividend of 1.2 cents per share. The total dividend of the year 2006/07 was 3.2 cents (2005/06: 3.01 cents).

Employees

As at 31 March 2007, the Group employed over 19,000 full time employees in Hong Kong, Cambodia and the PRC. The Group remunerates its employees based on performance and experience.

Charge on Group Assets

As at 31 March 2007, none of the owned fixed assets of the Group were utilized as security for the Group's borrowings.

Exposure to Fluctuations in Exchange Rates

Most of the Group's assets and liabilities are denominated in Hong Kong dollars, US dollars and Renminbi, which were relatively stable during the year. The Group is not exposed to material exchange risks.

Investor Relations

The Group proactively promotes investor relations through meetings with analysts and investors, and by participating in international roadshows, investor conferences, investor conference calls, company interviews and plant visits. The Group has established various communication channels to improve the transparency and corporate governance of Tack Fat, including the timely issuance of press releases and announcements to inform investors of latest corporate developments. All of the Group's latest announcements can always be found at www.tackfat.com in both English and Chinese.

Executive Directors

Mr. KWOK Wing *(Chairman)*
Mr. LEE Yuk Man
Mr. HO Yik Kin, Norman
Mr. KWOK Kam Chuen

Independent Non-Executive Directors

Mr. LEUNG Yiu Wing, Eric
Mr. CHING Kwok Ho, Samuel
Mr. HENG Kwoo Seng

Company Secretary

Mr. CHU Kin Wah, *FCCA, CPA*

Principal Office

13th Floor
Roxy Industrial Centre
58-66 Tai Lin Pai Road
Kwai Chung, New Territories
Hong Kong

Company Website

www.tackfat.com

Registered Office

Century Yard
Cricket Square, Hutchins Drive
George Town, Grand Cayman
Cayman Islands
British West Indies

Auditors

KPMG
Certified Public Accountants

Share Registrars

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

Principal Bankers

Hang Seng Bank
Bank of America, N.A.
HSBC
Standard Chartered Bank
DBS Bank (Hong Kong) Limited

Investor and Media Relations

Hill & Knowlton Asia Ltd
www.hillandknowlton.com.hk

Biographies of Directors and Senior Management

Directors

Executive Directors

Mr. KWOK Wing, aged 56, is the Chairman and one of the founders of the Group. Mr. Kwok has over 36 years of experience in the clothing industry. He is responsible for the formulation of overall corporate policy and business development strategy of the Group. Mr. Kwok is also responsible for supervising the operations of the Group's business and maintaining the relationships with major customers of the Group.

Mr. LEE Yuk Man, aged 61, is an executive director of the Group. He has over 35 years of experience in the clothing industry. Mr. Lee has been working for the Group for over 31 years and is responsible for the supervision of the Group's operations, particularly in the areas of purchasing, sales, merchandising and general administration. He graduated with a higher diploma in business administration from the Hong Kong Baptist University.

Mr. HO Yik Kin, Norman, aged 51, is an executive director of the Group. He is responsible for overseeing the sales and merchandising department of the Group. Mr. Ho has over 30 years of experience in the clothing industry and joined the Group in 1995.

Mr. KWOK Kam Chuen, aged 63, is an executive director of the Group. He has over 23 years of experience in the clothing industry and joined the Group in 1980. He is responsible for the general administration and management of the Group's operation in PRC.

Independent non-executive Directors

Mr. LEUNG Yiu Wing, Eric, aged 41, is a certified public accountant practising in Hong Kong. He has over 13 years of experience in taxation and accounting in Hong Kong. Mr. Leung is an associate member of The Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the U.K.. He is currently the sole proprietor of an audit firm Eric Leung & Company. Mr. Leung had been appointed as an executive director and company secretary of CIL Holdings Limited, a company listed on the Stock Exchange.

Mr. CHING Kwok Ho, Samuel, aged 50, is a practising solicitor in Hong Kong. He graduated from the University of Hong Kong with a bachelor of laws degree and a postgraduate certificate in laws. Mr. Ching is currently one of the partners of King & Company in Hong Kong. He has over 21 years of legal experience in banking and finance, liquidation, tenancy, conveyancing, commercial disputes and civil litigation in Hong Kong.

Mr. HENG Kwoo Seng, aged 59, is the managing partner of Morison Heng, Chartered Accountants and Certified Public Accountants. He is a fellow member of The Institute of Chartered Accountants in England & Wales and an associate member of The Hong Kong Institute of Certified Public Accountants. He was formerly a member of the Chinese People Consultative Committee Hainan until 2003 and is currently the Vice Chairman of The Hong Kong Hainan Commercial Association. He is an independent non-executive directors of various public companies, namely, Lee & Man Holding Limited, Lee & Man Paper Manufacturing Limited, The Thai-Asia Fund Limited, The Thai Asset Fund Limited, Winfair Investment Company Limited, China Fire Safety Enterprise Group Holdings Limited, Soundwill Holding Limited and SIM Technology Group Limited. Mr. Heng is also the Company Secretary of AEON Stores (Hong Kong) Co., Limited and China Life Insurance Company Limited.

Senior Management

Ms. CHAN Yuk Fong, aged 43, is the general merchandising manager of the Group. Ms. Chan joined the Group in 1995 and she is responsible for the sales and merchandising of swimming apparel. She graduated with a postgraduate diploma in business management from the Hong Kong Polytechnic University and a bachelor degree in arts from the Chinese University of Hong Kong.

Mr. MUI Wing Yip, aged 41, is the merchandising manager of the Group. He is responsible for the sales, purchasing and merchandising of sportswear. He graduated with a higher diploma in textile and clothing studies from the Hong Kong Polytechnic University. Mr. Mui joined the Group in 1991.

Mr. LUK Chan Ming, aged 46, is the head of production department of the Group. Mr. Luk stations in Hong Kong and is responsible for the supervision and management of the Group's overall production. He co-ordinates with the management of the Group's production facilities in the PRC and Cambodia to arrange for the processing of the customers orders and ensure smooth production flow. Mr. Luk joined the Group in 1993.

Ms. TAN Miao Yan, aged 54, is the factory manager of the Group's production facilities in the PRC. Ms. Tan is responsible for overseeing the overall production operations of the Group's production facilities in the PRC. Ms. Tan joined the Group in 1987 and she has over 26 years of experience in the production management in the PRC.

Mr. CHIU Wai Lun, aged 44, is the production manager of the Group's production facilities in Cambodia and he joined the Group in 1987. He is responsible for the production management and quality control of the Group's production facilities in Cambodia. Mr. Chiu obtained a diploma in business management jointly awarded by the Hong Kong Polytechnic University and the Hong Kong Management Association.

Ms. PENG Ding, aged 46, is the factory manager of the Group's production facilities in Cambodia. She is responsible for overseeing the overall production operations of the Group's production facilities in Cambodia. Ms. Peng joined the Group in 1987 and she has over 18 years of experience in the manufacturing of apparel.

Mr. CHU Kin Wah, aged 39, is the company secretary of the Group. He is responsible for the overall financial management and corporate governance of the Group. Mr. Chu is an associate member of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the U.K.. Prior to joining the Group in 2000, he has worked in an international accounting firm in Hong Kong for over eight years.

Mr. SIEW Chun Fai, aged 34, is the financial controller of the Group. He is responsible for financial accounting and taxation planning of the Group. Mr. Siew is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Prior to joining the Group in 2006, Mr. Siew worked in various positions with companies in different sectors, such as listed companies and major international accounting firms. He graduated with a bachelor degree in accounting from the University of Western Sydney.

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 March 2007.

Principal Place of Business

Tack Fat Group International Limited ("the Company") is a company incorporated in Cayman Islands and principal place of business at 13/F, Roxy Industrial Centre, 58-66 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong.

Principal Activities

The principal activities of the Company is investment holding. The principal activities of the Group are the manufacturing and sale of garments as well as retail sale of garments. The principal activities and other particulars of the individual subsidiaries are set out in note 14 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 12 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 March 2007 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 32 to 101.

Transfer to reserves

Profit attributable to equity shareholders of the Company, before dividends, of $314,639,000 (2006: HK$132,626,000) has been transferred to reserves. Other movements in reserves are set out in note 29 to the financial statements.

An interim dividend of HK1.2 cents (2006: HK1.2 cents) per share was paid on 5 October 2007. The directors have recommended the payment of a final dividend of HK2 cents (2006: HK1.81 cents) per share in respect of the year ended 31 March 2007.

Charitable donations

Charitable donations made by the Group during the financial year amounted to HK$11,000 (2006: HK$20,000).

Major Customers and Suppliers

For the year ended 31 March 2007, the Group's five largest suppliers accounted for 19.7% of the Group's total purchases. The largest supplier accounted for 4.9% of the Group's total purchases.

For the year ended 31 March 2007, the Group's five largest customers accounted for 62.9% of the Group's total sales. The largest customer accounted for 27.5% of the Group's total sales.

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

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 13 to the financial statements.

Particulars of the major properties and property interests of the Group are shown on page 102 of the annual report.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2007 are set out in notes 22 to 24, to the financial statements.

Share Capital

Details of the share capital of the Company are set out in note 29 to the financial statements.

Directors

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

Executive directors

Kwok Wing *(Chairman)*
Lee Yuk Man
Ho Yik Kin, Norman
Kwok Kam Chuen

Independent non-executive directors

Leung Yiu Wing, Eric
Ching Kwok Ho, Samuel
Heng Kwoo Seng

In accordance with article 87 of the Company's articles of association, Mr Kwok Wing and Mr Ching Kwok Ho, Samuel will retire from the board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' Service Contracts

The independent non-executive directors were appointed by the board of directors on 28 March 2002 and 27 September 2004 respectively. Their appointments do not have a specific term but are subject to retirement by rotation in annual general meeting of the Company pursuant to the Company's articles of association. Their remuneration is determined by the board of directors on the anniversary of the date of their appointment.

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

At 31 March 2007, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company, its subsidiaries and associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

	Ordinary shares of HK$0.1 each			
Beneficial interests	**Personal interests**	**Corporate interests**	**Total number of shares held**	**Percentage of total Issued shares**
Mr Kwok Wing	-	762,424,000 *(note)*	762,424,000	38.12%

Note: These shares are held as to 652,800,000 shares by Efulfilment Enterprises Limited and as to 109,624,000 shares by Sharp Asset Holdings Limited. Mr Kwok Wing beneficially owns 50% of the issued share capital of Efulfilment Enterprises Limited and 100% of Sharp Asset Holdings Limited.

In addition to the above, certain director has non-beneficial personal equity interest in certain subsidiaries held for the benefit of the Group solely for the purpose of complying with the minimum company membership requirements of the Hong Kong Companies Ordinance. Certain director also has beneficial interests in non-voting deferred shares practically carrying no rights to dividends or to receive notice of or to attend or vote at any general meeting or to participate in any distribution or winding up in a subsidiary.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2007.

Share Option Scheme

The Company has conditionally adopted a share option scheme approved by way of written resolution on 11 April 2002 under which the directors of the Company may invite any full-time employees, directors (including executive directors, non-executive directors and independent non-executive directors) and part-time employees of the Group with weekly working hours of 10 hours and above, any advisers (professional or otherwise) or consultants, distributors, suppliers, agents, customers, partners, joint venture partners, promoters, service providers to the Group from time to time to take up options to subscribe for shares of the Company.

The exercise price is determined by the board of directors at its absolute discretion and notified to each option holder but shall be no less than the highest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the SEHK on the date of grant, (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the SEHK for the five business days immediately preceding the date of grant, and (iii) the nominal value of a share on the date of grant. The options may be exercised in accordance with the terms of the share option scheme at any time during a period to be notified by the board of directors to each option holder but may not be exercised after the expiry of ten years from the date of grant.

The maximum number of shares which may be issued upon the exercise of all outstanding options and yet to be exercised under the share option scheme shall not exceed 30% of the issued share capital of the Company from time to time. Subject always to the above overall limit, the board of directors may grant options under the share option scheme, generally and without further authority, in respect of such number of shares which may be issued upon exercise of all options to be granted under the share option scheme not exceeding 10% of the issued share capital of the Company as at 29 April 2002, being the date on which the Company's shares were listed on the SEHK. For the purpose of calculating the above, options lapsed in accordance with the share option scheme shall not be counted.

In respect of the share options granted by the Company to the employees on 8 November 2004, 36,000,000 share options were exercised at HK$0.74 per share during the year and the remaining 32,000,000 share options were exercised after year end.

On 24 October 2005, the Company granted 70,000,000 options at a nominal consideration under the share option scheme of the Company to certain employees of the Group to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one share of the Company at HK$0.614 (which is equal to the closing price of the shares on the date of grant) with exercisable period from 24 October 2005 to 23 October 2008.

Up to the date of approval of these financial statements, 42,000,000 share options granted on 24 October 2005 have been exercised.

Substantial Shareholders' And Other Persons' Interests And Short Positions In Shares And Underlying Shares

As at 31 March 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

	Ordinary shares held	**Percentage of total issued shares**
Wan Lai Ngan *(Note 1)*	762,424,000 (L)	38.12%
Efulfilment Enterprises Limited *(Note 2)*	652,800,000 (L)	32.64%
Kwok Chiu *(Note 2)*	652,800,000 (L)	32.64%
Sansar Capital Management, LLC	263,064,000 (L)	13.15%
McCarthy Kent C. *(Note 3)*	252,472,000 (L)	12.62%
Jayhawk China Fund (Cayman), Ltd. *(Note 3)*	245,736,000 (L)	12.29%
SinoPac Capital Limited *(Note 4)*	199,702,400 (L)	9.99%
Templeton Asset Management Limited	175,106,000 (L)	8.76%
Sansar Capital Master Fund, LP *(Note 5)*	144,105,700 (L)	7.21%
Sansar Capital Special Opportunity Master Fund, LP *(Note 5)*	123,380,400 (L)	6.17%
Veer Palthe Voute NV *(Note 5)*	103,790,000 (L)	5.19%
Sharp Asset Holdings Limited *(Note 6)*	109,624,000 (L)	5.48%

"L" denotes long position

Notes:

1. Ms. Wan Lai Ngan is the spouse of Mr. Kwok Wing and is therefore deemed to be interested in the Shares held or deemed to be held by Mr. Kwok Wing under the SFO.

2. The issued share capital of Efulfilment is beneficially owned by Mr. Kwok Chiu and Mr. Kwok Wing, the chairman and an executive Director, in the proportion of 50:50. Mr. Kwok Chiu is therefore deemed to be interested in the Shares held by Efulfilment Enterprises Limited under the SFO.

3. According to the form filed pursuant to Part XV of the SFO by McCarthy Kent C. and Jayhawk China Fund (Cayman) Ltd., the Shares are held by Jayhawk China Fund (Cayman), Ltd. as investment manager which is owned 100% by McCarthy Kent C..

4. SinoPac Capital Limited had a security interest in these 199,702,400 Shares in which 179,400,000 Shares were derivative interests.

5. According to the form filed pursuant to Part XV of the SFO by Allianz SE, Dresdner Bank Aktiengesellschaft and Veer Palthe Voute NV, the Shares are held by Veer Palthe Voute NV in the capacity of an investment manager, which is 100% owned by Dresdner Bank Aktiengesellschaft, which in turn, is owned 81.1% by Allianz SE.

6. The entire issued share capital of Sharp Asset Holdings Limited is owned by Mr. Kwok Wing, the chairman and an executive Director.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March 2007.

Directors' Interests in Contracts

Apart from the related party transactions as disclosed in note 33 to the financial statements, no contract of significance to which the Company, any of its subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

Purchase, Sale or Redemption of The Company's Listed Securities

Throughout the year ended 31 March 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

Sufficiency of Public Float

Based on the information available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

Application of Proceeds From Capital Raising

On 10 April 2006, the Company issued 227,500,000 new shares at the subscription price of HK$1.03 each. In accordance with the planned usage, the net proceeds from the share issue of approximately HK$227 million were applied as to approximately HK$100 million for the expansion of the Group's production capacity in Cambodia and in PRC, as to HK$50 million for expansion of Mudd retail operation in the PRC and as to the remaining for repayment of debts.

On 27 February 2007 and 13 April 2007, the Company issued 165,266,000 and 12,734,000 new shares at the subscription price of HK$1.09 each, respectively. The net proceeds from the share issue of approximately HK$190 million will be applied as to approximately HK$90 million for the expansion of the Group's production capacity in Cambodia and in PRC, as to HK$50 million for expansion of Mudd retail operation in the PRC and as to the remaining for general capital and the acquisition of international brand name.

Retirement Schemes

Particulars of employee retirement schemes of the Group are set out in note 26 on the financial statements.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 103 of the annual report.

Audit Committee

The audit committee has been convened for the purpose of reviewing the Company's financial reporting and internal control systems. The audit committee currently comprises three independent non-executive directors.

Confirmation of Independence

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

Auditors

KPMG will retire at the forthcoming Annual General Meeting.

By order of the board
Kwok Wing
Chairman

Hong Kong, 1 August 2007

The Company is committed to meeting statutory and regulatory requirements and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness.

Code on Corporate Governance Practices

The Company has complied with the code provisions listed in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 March 2007, with the exception that are discussed later in this report.

Model Code for Securities Transactions

The Company has adopted a code of conduct governing securities transactions by directors on terms no less exacting than that required under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the year ended 31 March 2007.

Board of Directors

The Board comprises seven directors, four of which are executive directors, namely Mr. Kwok Wing, Mr. Lee Yuk Man, Mr. Ho Yik Kin, Norman and Mr. Kwok Kam Chuen, and there are three independent non-executive directors, namely Mr. Leung Yiu Wing, Eric, Mr. Ching Kwok Ho, Samuel and Mr. Heng Kwoo Seng.

Regular Board meetings are held at least four times a year which include two full Board meetings to approve interim and financial results and to propose interim and final dividends, if appropriate. It is also held as and when necessary to discuss significant transactions, including issuance of debt securities, material acquisitions and disposal, and connected transactions, if any. All Directors are given an opportunity to include matters in the agenda for Board meetings.

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, and dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the Chairman and the senior management.

During the year ended 31 March 2007, 7 board meetings were held. The attendance of each director is set out as follows:

Director	**Attendance record**
Mr. Kwok Wing	7/7
Mr. Lee Yuk Man	7/7
Mr. Ho Yik Kin, Norman	6/7
Mr. Kwok Kam Chuen	3/7
Mr. Leung Yiu Wing, Eric	4/7
Mr. Ching Kwok Ho, Samuel	4/7
Mr. Heng Kwoo Seng	4/7

The board of directors is responsible for the formulation of business strategies for the Group and the operational decision making is delegated to the management team.

Mr Kwok Wing is the chairman of the board of directors (the "Board") and also assumes the role of managing director. The Board considers that the current management structure ensures consistent leadership and optimal efficiency for the operations of the Group.

There is no financial, business, family or other material or relevant relationship among the Directors.

Term of Non-executive Directors

The independent non-executive directors were appointed by the board of directors without a specific term but are subject to rotation in Annual General Meeting pursuant to the Company's articles of association.

Independence of Independent Non-executive Directors

The Company has received from each of the independent non-executive directors a confirmation of independence for the year ended 31 March 2007 pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

Remuneration Committee

To comply with the CG Code, a remuneration committee was established in June 2005. The members of the remuneration committee comprise two independent non-executive directors of the Company, Mr. Leung Yiu Wing, Eric (Chairperson) and Mr. Heng Kwoo Seng, and one executive director, Mr. Kwok Wing.

During the year ended 31 March 2007, one remuneration committee meeting was held. The attendance of each committee member is set out as follows:

Director	Attendance record
Mr. Leung Yiu Wing, Eric	1/1
Mr. Heng Kwoo Seng	1/1
Mr. Kwok Wing	1/1

The main role and function of the remuneration committee consist of determining the remuneration and the terms of employment of the directors. During the year, the remuneration committee has assessed the performance of the executive directors, determined the discretionary bonuses of the executive directors and approved the terms of executive directors' service agreements.

The emoluments of the executive directors are determined with the reference to the duties, responsibilities and experience of the directors and prevailing market conditions. Besides the basic salaries and benefits-in-kind as stipulated in the service agreements, prior approval of the remuneration committee is also required for performance related benefits of the executive directors.

The emoluments of the non-executive directors are determined based on the estimated time spent by them on the Company's matters.

Nomination Committee

The Company does not have a nomination committee, and the power to nominate or appoint additional directors is vested on the Board according to the articles of association of the Company, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the articles of association of the Company and the laws of Hong Kong.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically follow the provisions of the articles of association which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position. There was no change in directorship during the year ended 31 March 2007.

Auditors' Remuneration

During the year ended 31 March 2007, the remuneration paid to the external auditors, KPMG, are analysed as follows:

	HK$
Audit services	1,750,000
Non-audit services	469,000
	2,219,000

Statement by the Auditors

The statement of the auditors of the Group regarding their responsibilities on the financial statements is set out the in the auditors' report on pages 30 to 31.

Audit Committee

The Company has an audit committee which was established in compliance with rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors, Mr. Leung Yiu Wing, Eric, Mr. Ching Kwok Ho, Samuel and Mr. Heng Kwoo Seng, and reports to the board of directors.

During the year ended 31 March 2007, two audit committee meetings were held. The attendance of each committee member is set out as follows:

Director	**Attendance record**
Mr. Leung Yiu Wing, Eric	2/2
Mr. Ching Kwok Ho, Samuel	2/2
Mr. Heng Kwoo Seng	2/2

During the year, the audit committee has reviewed with the management the accounting principles and practices adopted by the group, the interim and annual financial statements of the group, met and discussed with the external auditors, and raised queries and obtained explanations from the management on issues related to financial and operational control procedures of the group.

The audit committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

Directors' Responsibilities for Preparing Financial Statements

The Company's directors acknowledge that they are responsible for the preparation of financial statements which give a true and fair view.

The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgment and estimates made are prudent and reasonable.

Independent Auditor's Report

Independent auditor's report to the shareholders of
Tack Fat Group International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tack Fat Group International Limited (the "company") set out on pages 32 to 101, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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.

Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Basis for qualified opinion

As at 31 March 2007, the group's interests in associates included share of net assets of Sino Legend Limited ("Sino Legend") of HK$285,418,000 and the group's profit for the year was arrived at after share of Sino Legend's profit of HK$114,084,000 for the year then ended. These amounts were derived from the audited financial statements of Sino Legend for the year ended 31 March 2007, which were prepared under accounting principles generally accepted in the United States of America. In addition, the group's interests in associates included goodwill of HK$261,079,000 which arose on the acquisition of the group's interest in Sino Legend and a premium of HK$78,000,000 paid for an option to acquire an additional 20.8% equity interest in Sino Legend was included in other financial assets.

The financial statements of Sino Legend referred to above were audited by an audit firm which is unrelated to the network of member firms affiliated with KPMG International. This firm issued an unqualified report dated 24 July 2007 on these financial statements. However, we have yet to receive sufficient information from this firm as we consider necessary in order to enable us to form a conclusion as to the adequacy of their work for our purposes or to carry out sufficient alternative procedures. Hence, we have been unable to satisfy ourselves as to whether:

1. the group's interests in Sino Legend as at 31 March 2007, the group's share of profit for the year then ended and the option premium included in other financial assets were fairly stated under Hong Kong Financial Reporting Standards; and

2. the summary financial information of Sino Legend as disclosed in note 15 to the financial statements was fairly stated under Hong Kong Financial Reporting Standards.

Qualified opinion arising from limitation of audit scope

In our opinion, except for the effects of any adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters referred to above, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2007 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

1 August 2007

Consolidated Income Statement

For the year ended 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Turnover	3	**1,942,545**	1,655,166
Cost of sales		**(1,415,714)**	(1,216,749)
Gross profit		**526,831**	438,417
Other revenue	4	**9,167**	7,728
Other net loss	4	**(840)**	(704)
Distribution costs		**(208,440)**	(137,855)
Administrative expenses		**(47,634)**	(45,240)
Profit from operations		**279,084**	262,346
Finance costs	5(a)	**(65,839)**	(63,189)
Share of profits less losses of associates	15	**114,084**	(35,752)
Profit before taxation	5	**327,329**	163,405
Income tax	6(a)	**(12,690)**	(30,779)
Profit attributable to equity shareholders of the Company	9	**314,639**	132,626
Dividends payable to equity shareholders of the Company attributable to the year	10		
Interim dividend declared and paid during the year		**21,303**	18,200
Final dividend proposed after the balance sheet date		**42,267**	31,569
		63,570	49,769
Earnings per share			
Basic	11(a)	**17.64 cents**	8.74 cents
Diluted	11(b)	**16.07 cents**	8.21 cents

The notes on pages 39 to 101 form part of these financial statements.

Consolidated Balance Sheet

At 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Non-current assets			
Fixed assets			
– Other property, plant and equipment	13	**363,869**	293,346
– Interests in leasehold land held for own use under operating leases		**102,410**	86,439
		466,279	379,785
Interest in associates	15	**546,497**	432,413
Other financial assets	16	**94,100**	94,100
		1,106,876	906,298
Current assets			
Inventories	17	**313,670**	248,069
Trade and other receivables	18	**833,108**	570,859
Cash and cash equivalents	20	**340,335**	176,686
		1,487,113	995,614
Current liabilities			
Trade and other payables	21	**108,099**	82,473
Bank loans and overdrafts	22	**287,188**	230,954
Obligations under finance leases	24	**6,914**	10,989
Current tax payable	28(a)	**34,227**	33,844
		436,428	358,260
Net current assets		**1,050,685**	637,354
Total assets less current liabilities		**2,157,561**	1,543,652

CONSOLIDATED BALANCE SHEET

At 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Non-current liabilities			
Bank loans	22	**384,000**	475,384
Convertible bonds	23	**157,720**	187,776
Obligations under finance leases	24	**37,932**	37,736
Provision for long service payments	25	**1,800**	1,800
Deferred tax liabilities	28(b)	**237**	2,756
		581,689	705,452
NET ASSETS		**1,575,872**	838,200
CAPITAL AND RESERVES			
Share capital	29(a)	**200,000**	151,666
Reserves	29(a)	**1,375,872**	686,534
TOTAL EQUITY		**1,575,872**	838,200

Approved and authorised for issue by the board of directors on 1 August 2007.

Kwok Wing)
) *Directors*
Kwok Kam Chuen)

The notes on pages 39 to 101 form part of these financial statements.

Balance Sheet

At 31 March 2007
(Expressed in Hong Kong dollars)

	Note	**2007** **$'000**	2006 $'000
Non-current assets			
Investments in subsidiaries	*14*	**228,300**	228,300
Amount due from subsidiaries	*19*	**736,405**	–
		964,705	228,300
Current assets			
Amounts due from subsidiaries	*19*	**184,101**	453,333
Current tax recoverable		**162**	–
Cash and cash equivalents	*20*	**132**	88
		184,395	453,421
Current liabilities			
Trade and other payables	*21*	**13,833**	110
Net current assets		**170,562**	453,311
Total assets less current liabilities		**1,135,267**	681,611
Non-current liabilities			
Convertible bonds	*23*	**157,720**	187,776
NET ASSETS		**977,547**	493,835
CAPITAL AND RESERVES			
Share capital	*29(b)*	**200,000**	151,666
Reserves	*29(b)*	**777,547**	342,169
TOTAL EQUITY		**977,547**	493,835

Approved and authorised for issue by the board of directors on 1 August 2007.

Kwok Wing)
) *Directors*
Kwok Kam Chuen)

The notes on pages 39 to 101 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2007 $'000	2006 $'000	2006 $'000
Total equity at 1 April			**838,200**		745,915
Net income recognised directly in equity:					
Exchange differences on translation of financial statements of overseas subsidiaries	29	**5,389**		2,522	
Net profit for the year	29	**314,639**		132,626	
Total recognised income and expense for the year			**320,028**		135,148
Dividends declared or approved during the year	10		**(53,154)**		(48,533)
Movements in equity arising from capital transactions	29				
Shares issued under share option scheme		**26,640**		–	
Shares issued on conversion of convertible bonds		**40,920**		–	
Placement of new shares, net of issue expenses		**403,238**		–	
Equity settled share-based transactions		**–**		5,670	
			470,798		5,670
Total equity at 31 March			**1,575,872**		838,200

The notes on pages 39 to 101 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Operating activities			
Profit before taxation		**327,329**	163,405
Adjustments for:			
– Depreciation		**52,934**	42,422
– Amortisation of land lease premium	5(c)	**2,377**	2,010
– Amortisation of other borrowing costs	5(a)	**3,434**	1,280
– Interest income	4	**(7,228)**	(6,708)
– Interest expenses	5(a)	**55,772**	55,143
– Finance charges on obligations under finance leases	5(a)	**678**	1,240
– Equity-settled share-based payment expenses		**–**	5,670
– Share of profits less losses of associates	15	**(114,084)**	35,752
– Foreign exchange loss		**4,275**	1,661
Operating profit before changes in working capital		**325,487**	301,875
Increase in inventories		**(65,601)**	(33,668)
Decrease/(increase) in trade and other receivables		**124,704**	(236,534)
Increase in trade and other payables		**12,050**	10,479
Cash generated from operations		**396,640**	42,152
Tax paid			
– Hong Kong profits tax paid		**(14,803)**	(5,054)
– Overseas tax paid		**(46)**	(1,001)
Net cash generated from operating activities		**381,791**	36,097
Investing activities			
Payment for purchase of fixed assets		**(132,565)**	(74,255)
Payment for purchase of associates		**–**	(1,897)
Payment of refundable acquisition deposit	18(b)	**(281,800)**	–
Interest received		**7,228**	6,708
Net cash used in investing activities		**(407,137)**	(69,444)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Financing activities			
Capital element of finance lease rentals paid		**(12,012)**	(20,334)
Net decrease in trust receipt loans, export loans and bill discounting loans		**(143,556)**	(16,950)
Proceeds from new term loans		**6,655**	530,228
Repayment of term loans		**(9,442)**	(468,714)
Finance charges on obligations under finance leases		**(678)**	(1,240)
Interest paid		**(45,850)**	(44,656)
Proceeds from shares issued under share option scheme		**26,640**	–
Issue of shares for cash consideration		**403,238**	–
Receipt in advance for issue of shares		**13,576**	–
Dividends paid to equity shareholders of the company		**(53,154)**	(48,533)
Net cash generated from/ (used in) financing activities		**185,417**	(70,199)
Net increase/(decrease) in cash and cash equivalents		**160,071**	(103,546)
Cash and cash equivalents at 1 April		**175,869**	279,415
Cash and cash equivalents at 31 March	*20*	**335,940**	175,869

Significant non-cash transactions:

During the year the group purchased fixed assets with value totalling $8,132,000 (2006: $10,463,000) under finance leases.

During the year, convertible bonds totalling $54,570,000 (2006: $Nil) were converted into ordinary shares of the company (note 23).

During the year the group recorded accrued interest of $10,487,000 (2006: $11,438,000) in respect of convertible bonds, which is payable where redemption of the convertible bonds takes place.

The notes on pages 39 to 101 form part of these financial statements.

1 Significant Accounting Policies

(a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group and the company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 March 2007 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that Financial Instruments are stated at their fair value as explained in the accounting policy set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1 Significant Accounting Policies *(Continued)*

(b) Basis of Preparation of the Financial Statements *(Continued)*

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 36.

(c) Subsidiaries

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transaction and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)).

(d) Associates

An associate is an entity in which the group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associate's net assets. The consolidated income statement includes the group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (note 1(i)).

When the group's share of losses exceeds its interest in the associate, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the group's interest in the associate is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate.

1 Significant accounting policies *(Continued)*

(d) Associates *(Continued)*

Unrealised profits and losses resulting from transactions between the group and its associates are eliminated to the extent of the group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they recognised immediately in profit or loss.

(e) Other Investments in Securities

The group's policies for investments in securities other than investments in subsidiaries and associates are as follows:

(i) Investments in securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (note 1(i)).

(ii) Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.

(f) Goodwill

Goodwill represents the excess of the cost of an investment in an associate over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(i)). In respect of an associate, the carrying amount of goodwill is included in the interest in the associate.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of an investment in an associate is recognised immediately in profit or loss.

On disposal of an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 Significant accounting policies *(Continued)*

(g) Other Property, Plant and Equipment

(i) The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)):

- land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 1(h));

- buildings held for own use which are situated on the leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(h)); and

- other items of property, plant and equipment.

(ii) Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Depreciation is calculated to write off the cost of items of property, plant and equipment using the straight line method over their estimated useful lives as follows:

Buildings	30 to 50 years
Plant and machinery	5 years
Furniture, fixtures and office equipment	5 years
Leasehold improvements	Shorter of lease term and 5 years
Motor vehicles and yacht	4 years

(iv) Where parts of an items of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(v) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1 Significant accounting policies *(Continued)*

(h) Leased Assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of Assets Leased to the group

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, with the exception that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous lessee.

(ii) Assets Acquired under Finance Leases

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

1 Significant Accounting Policies *(Continued)*

(h) Leased Assets *(Continued)*

(iii) Operating Lease Charges

Where the group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(i) Impairment of Assets

(i) Impairment of Investments in Securities and Other Receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost or amortised cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

1 Significant Accounting Policies *(Continued)*

(i) Impairment of Assets *(Continued)*

(i) Impairment of Investments in Securities and Other Receivables (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investments in subsidiaries and associates; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 Significant Accounting Policies *(Continued)*

(i) Impairment of Assets *(Continued)*

(ii) Impairment of Other Assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 Significant Accounting Policies *(Continued)*

(k) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(i)).

(l) Convertible Bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

(m) Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

1 Significant Accounting Policies *(Continued)*

(n) Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(p) Employee Benefits

(i) Short-term Employee Benefits and Contributions to Defined Contribution Retirement Plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based Payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

1 Significant Accounting Policies *(Continued)*

(p) Employee Benefits *(Continued)*

(ii) Share-based Payments (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination Benefits

Termination benefits are recognised when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

1 Significant Accounting Policies *(Continued)*

(q) Income Tax *(Continued)*

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 Significant Accounting Policies *(Continued)*

(q) Income Tax *(Continued)*

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Financial Guarantees Issued, Provisions and Contingent Liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. guarantor) to make specified payments to reimburse the beneficiary to the guarantee ("the holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

1 Significant Accounting Policies *(Continued)*

(r) Financial Guarantees Issued, Provisions and Contingent Liabilities *(Continued)*

(ii) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue Recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of Goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Interest Income

Interest income is recognised as it accrues using the effective interest method.

(t) Translation of Foreign Currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

1 Significant Accounting Policies *(Continued)*

(t) Translation of Foreign Currencies *(Continued)*

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(u) Borrowing Costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(v) Related Parties

For the purpose of these financial statements, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or had joint control over the group;

(ii) the group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

1 Significant Accounting Policies *(Continued)*

(v) Related Parties *(Continued)*

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Segment Reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 Changes in accounting policies

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group.

Note 1 summarises the accounting policies of the group after the adoption of these developments to the extent that they are relevant to the group. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

Financial guarantees issued (Amendments to HKAS 39, Financial instruments: Recognition and measurement: Financial guarantee contracts)

In prior years, financial guarantees issued by the group were disclosed as contingent liabilities in accordance with HKAS 37 *"Provisions, contingent liabilities and contingent assets"*. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from 1 April 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in note 1(r)(i).

During the years ended 31 March 2006 and 2007, financial guarantees are issued by the company in respect of certain banking and finance lease facilities granted to its subsidiaries. Due to the related party nature of these instruments, the directors considered it is not meaningful and practicable to estimate the fair values of the financial guarantees and therefore they have not been recognised in the company's financial statements. As a result, the adoption of amendments to HKAS 39 has no impact on the company's and the group's net assets and results for the current and prior years.

3 Turnover

The principal activities of the group are the manufacturing and sale of garments and retail sale of garments.

Turnover represents the aggregate of the invoiced value of goods sold and is stated after deducting goods returned, trade discounts and sales tax.

4 Other Revenue and Net Loss

	2007 $'000	2006 $'000
Other revenue		
Interest income	**7,228**	6,708
Others	**1,939**	1,020
	9,167	7,728
Other net loss		
Net foreign exchange loss	**840**	704

5 Profit Before Taxation

Profit before taxation is arrived at after charging:

	2007 $'000	2006 $'000
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	**55,772**	55,143
Finance charges on obligations under finance leases	**678**	1,240
Bank charges	**5,955**	5,526
Other borrowing costs	**3,434**	1,280
	65,839	63,189

	2007 $'000	2006 $'000
(b) Staff cost:		
Contributions to defined contribution retirement plan	**1,616**	1,349
Equity-settled share-based payment expenses	**–**	5,670
Salaries, wages and other benefits	**166,416**	136,685
	168,032	143,704

5 Profit Before Taxation *(Continued)*

	2007 $'000	2006 $'000
(c) Other items:		
Cost of inventories #	**1,415,714**	1,216,749
Subcontracting charges #	**37,104**	28,518
Depreciation #		
– owned assets	**50,044**	36,369
– assets held under finance leases	**2,890**	6,053
Amortisation of land lease premium #	**2,377**	2,010
Purchase cost of temporary textile quota entitlements	**1,926**	1,058
Operating lease charges in respect of properties #		
– minimum lease payments	**14,312**	3,704
– contingent rentals*	**13,004**	–
Auditor's remuneration	**1,750**	1,460
Impairment loss on inventories #	**1,332**	698

Cost of inventories includes $202,888,000 (2006: $176,354,000) relating to subcontracting charges, staff costs, depreciation expenses, amortisation of land lease premium, operating lease charges and impairment loss on inventories, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

* Contingent rentals relating to the operating leases of retail outlets were determined based in certain fixed rates on the turnover of the relevant retail outlets for the year.

6 Income Tax in the Consolidated Income Statement

(a) Taxation in the consolidated income statement represents:

	2007 **$'000**	2006 *$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**8,739**	12,879
Under-provision in respect of prior years	**13,954**	14,605
	22,693	27,484
Current tax – Overseas		
Provision for the year	**46**	8,067
Over-provision in respect of prior years	**(7,507)**	–
	(7,461)	8,067
Deferred tax		
Origination and reversal of temporary differences *(note 28(b))*	**(2,542)**	(4,772)
	12,690	30,779

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

The group's subsidiaries in the PRC are subject to PRC income tax at the rate of 33%.

Pursuant to the tax exemption certificates issued by Cambodia tax authority, Tack Fat Garment (Cambodia) Ltd. and Cambodia Sportwear Mfg. Ltd. have become exempted Cambodia income tax during the periods from 1 April 2005 to 14 June 2008 and from 1 April 2005 to 14 June 2007 respectively. Accordingly, the provisions for Cambodian income tax totalling $7,507,000 made in the previous year was written back to the income statement for the year. In addition, the tax holiday of Supertex Limited was extended for a further two years and accordingly this subsidiary is exempted from Cambodian income tax during the period from 8 July 2004 to 7 July 2010.

The Hong Kong Inland Revenue Department ("HKIRD") is carrying out a review of certain taxation affairs of the Group, including intercompany transfer pricing arrangements, claims for offshore manufacturing profits and depreciation allowances of plant and machinery used outside Hong Kong in prior years. Depending on the outcome of such review, the group may become liable to pay additional tax and/or penalties up to three times of any tax underpaid, should the group fail to make a valid defence against any challenge by the HKIRD. The group has carried out a review on its tax position and based on the review, the group has made additional provisions where required. The directors are of the view that it is unlikely that the Group may become liable to any penalty or further taxes (note 32).

6 Income Tax in the Consolidated Income Statement

(Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2007 **$'000**	2006 $'000
Profit before taxation	**327,329**	163,405
Notional tax on profit before taxation, calculated at Hong Kong Profits tax of 17.5%	**57,283**	28,596
Tax effect of non-taxable offshore income	**(5,806)**	(4,820)
Tax effect of non-taxable income	**(21,356)**	(1,160)
Tax rate differential of subsidiaries outside Hong Kong	**(139)**	(6,581)
Effect of tax holidays of subsidiaries outside Hong Kong	**(24,961)**	(10,887)
Tax effect of non-deductible expenses	**3,377**	15,555
Under-provision in prior years	**6,447**	14,605
Deferred taxation derecognised	**(2,155)**	(5,057)
Others	**–**	528
Actual tax expense	**12,690**	30,779

7 Directors' Remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

2007

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement schemes contributions $'000	Total $'000
Executive directors					
Kwok Wing	–	2,832	100	12	2,944
Lee Yuk Man	–	540	60	12	612
Ho Yik Kin, Norman	–	840	60	12	912
Kwok Kam Chuen	–	240	–	12	252
Independent non-executive directors					
Leung Yiu Wing, Eric	60	–	–	–	60
Ching Kwok Ho, Samuel	60	–	–	–	60
Heng Kwoo Seng	60	–	–	–	60
	180	4,452	220	48	4,900

7 Directors' Remuneration *(Continued)*

2006

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement schemes contributions $'000	Total $'000
Executive directors					
Kwok Wing	–	2,832	100	12	2,944
Lee Yuk Man	–	540	120	12	672
Ho Yik Kin, Norman	–	840	120	12	972
Kwok Kam Chuen	–	240	–	12	252
Independent non-executive directors					
Leung Yiu Wing, Eric	60	–	–	–	60
Ching Kwok Ho, Samuel	60	–	–	–	60
Heng Kwoo Seng	60	–	–	–	60
	180	4,452	340	48	5,020

8 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, three (2006: two) are directors whose emoluments are disclosed in note 7 above. The aggregate of the emoluments in respect of the other two (2006: three) individual is as follows:

	2007 **$'000**	2006 $'000
Salaries and other emoluments	**1,120**	1,655
Discretionary bonuses	**60**	50
Share-based payments	**–**	1,095
Retirement scheme contributions	**22**	36
	1,202	2,836

8 Individuals with Highest Emoluments *(Continued)*

The emoluments of the two (2006: three) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2007	2006
$		
Nil – 1,000,000	**2**	1
1,000,001 – 1,500,000	**–**	2

9 Profit Attributable to Equity Shareholders of the Company

The consolidated profit attributable to equity shareholders of the company includes a profit of $34,217,000 (2006: profit of $24,236,000) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount to the company's profit for the year:

	2007	2006
	$'000	*$'000*
Amount of consolidated profit attributable to equity shareholders dealt with in the company's financial statements	**34,217**	24,236
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**31,851**	30,333
Company's profit for the year *(note 29)*	**66,068**	54,569

10 Dividends

(a) Dividends Payable to Equity Shareholders of the Company Attributable to the Year

	2007 $'000	2006 $'000
Interim dividend declared and paid of 1.2 cents per ordinary share (2006: 1.2 cents per ordinary share)	**21,303**	18,200
Final dividend proposed after the balance sheet date of 2 cents per ordinary share (2006: 1.81 cents per ordinary share)	**42,267**	31,569
	63,570	49,769

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends Payable to Equity Shareholders of the Company Attributable to the Previous Financial Year, Approved and Paid During the Year

	2007 $'000	2006 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 1.81 cents per share (2006: 2 cents per share)	**31,851**	30,333

Note: The amount of final dividend paid during the year of $31,851,000 included an additional amount of $282,000 paid to holders of new shares which were issued upon the conversion of convertible bonds before the closing date of the shareholders' register.

11 Earnings Per Share

(a) Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of $314,639,000 (2006: $132,626,000) and the weighted average of 1,783,858,000 (2006: 1,516,664,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2007 Number of shares *'000*	2006 Number of shares *'000*
Issued ordinary shares at 1 April	**1,516,664**	1,516,664
Effect of conversion of convertible bonds *(note 29)*	**18,302**	–
Effect of issuance of new shares *(note 29)*	**243,171**	–
Effect of share options exercised *(note 29)*	**5,721**	–
Weighted average number of ordinary shares at 31 March	**1,783,858**	1,516,664

(b) Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the adjusted profit attributable to ordinary equity shareholders of the company of $326,918,000 (2006: $145,043,000) and the weighted average number of 2,034,507,000 (2006: 1,767,605,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares, calculated as follows:

(i) Profit Attributable to Ordinary Equity Shareholders of the Company (diluted)

	2007 *$'000*	2006 *$'000*
Profit attributable to ordinary equity shareholders	**314,639**	132,626
Increase in earnings arising from savings in interest cost, net of tax (assuming the convertible bonds had been converted into shares in the company at the date of issue)	**12,279**	12,417
Profit attributable to ordinary equity shareholders (diluted)	**326,918**	145,043

11 Earnings Per Share *(Continued)*

(b) Diluted Earnings Per Share *(Continued)*

(ii) Weighted Average Number of Ordinary Shares (diluted)

	2007 Number of shares *'000*	2006 Number of shares *'000*
Weighted average number of ordinary shares at 31 March	**1,783,858**	1,516,664
Effect of conversion of convertible bonds	**215,664**	234,000
Effect of deemed issued of shares under the company's share option scheme for nil consideration	**34,985**	16,941
Weighted average number of ordinary shares (diluted) at 31 March	**2,034,507**	1,767,605

12 Segment Reporting

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

(a) Business Segment

The group has been predominately operating in one single business segment, i.e. the manufacturing and sale of garments. During the year, the group commenced the retail trading of garments in the PRC but such business was insignificant in the context of the group's overall operations for the year.

(b) Geographical Segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers. Segment assets and capital expenditures are based on the geographical location of the assets.

12 Segment Reporting *(Continued)*

(b) Geographical Segments *(Continued)*

The group's business is principally managed in Hong Kong and other parts of the PRC as well as in Cambodia while the principal markets for the group's products are wholesalers and retailers in North America, Europe and other regions.

		2007 $'000	2006 $'000
(i)	Segment revenue		
	North America	**1,558,529**	1,363,627
	Europe	**229,665**	215,765
	Other regions	**154,351**	75,774
		1,942,545	1,655,166
(ii)	Capital expenditures		
	Hong Kong	**5,654**	254
	PRC, excluding Hong Kong	**14,073**	15,197
	Cambodia	**120,970**	59,615
		140,697	75,066
(iii)	Segment assets		
	Hong Kong	**1,884,614**	1,257,615
	PRC, excluding Hong Kong	**177,383**	110,979
	Cambodia	**531,992**	533,318
		2,593,989	1,901,912

13 Fixed Assets

(a) The Group

	Land and buildings held for own use carried at cost $'000	Plant and machinery $'000	Furniture, fixtures and office equipment $'000	Leasehold improvements $'000	Motor vehicles and yacht $'000	Sub-total $'000	Interests in leasehold land held for own use under operating leases $'000	Total $'000
Cost:								
At 1 April 2005 (restated)	160,646	250,951	76,205	–	14,303	502,105	100,835	602,940
Exchange adjustments	752	840	273	–	117	1,982	138	2,120
Additions	31,577	38,510	4,720	–	259	75,066	–	75,066
At 31 March 2006	192,975	290,301	81,198	–	14,679	579,153	100,973	680,126
At 1 April 2006	192,975	290,301	81,198	–	14,679	579,153	100,973	680,126
Exchange adjustments	1,200	1,347	405	–	203	3,155	220	3,375
Additions	6,005	91,772	4,151	19,709	883	122,520	18,177	140,697
At 31 March 2007	200,180	383,420	85,754	19,709	15,765	704,828	119,370	824,198
Accumulated depreciation:								
At 1 April 2005 (restated)	20,618	162,796	45,718	–	12,960	242,092	12,496	254,588
Exchange adjustments	206	779	201	–	107	1,293	28	1,321
Charge for the year	3,757	31,120	7,029	–	516	42,422	2,010	44,432
At 31 March 2006	24,581	194,695	52,948	–	13,583	285,807	14,534	300,341
At 1 April 2006	24,581	194,695	52,948	–	13,583	285,807	14,534	300,341
Exchange adjustments	361	1,332	348	–	177	2,218	49	2,267
Charge for the year	4,495	37,010	7,577	3,140	712	52,934	2,377	55,311
At 31 March 2007	29,437	233,037	60,873	3,140	14,472	340,959	16,960	357,919
Net book value:								
At 31 March 2007	170,743	150,383	24,881	16,569	1,293	363,869	102,410	466,279
At 31 March 2006	168,394	95,606	28,250	–	1,096	293,346	86,439	379,785

13 Fixed Assets *(Continued)*

(b) The analysis of net book value of properties is as follows:

	The group	
	2007	2006
	$'000	*$'000*
In Hong Kong		
– Medium-term leases #	**5,844**	5,990
In PRC, other than Hong Kong		
– Medium-term leases #	**19,105**	18,359
In Cambodia		
– Long term leases #	**248,204**	230,484
	273,153	254,833
Representing:		
Land and buildings held for own use carried at cost	**170,743**	168,394
Interests in leasehold land held for own use under operating leases	**102,410**	86,439
	273,153	254,833

Medium-term leases represent leases with an unexpired period of less than 50 years but not less than 10 years. Long term leases represent leases with an unexpired period of not less than 50 years.

Pursuant to certain non-cancellable long lease agreements, the company's subsidiaries in Cambodia leased two parcels of land from the Government of Cambodia for a period of 70 years beginning in April and September 1994 respectively, in consideration of pre-determined fixed annual rents totalling approximately $55,057,000 plus contingent rents at 0.3% of the annual net profits of the subsidiaries. Pursuant to the lease agreements, the subsidiaries' title to fixtures erected on the relevant land will be surrendered to the Government of Cambodia upon expiry of the respective leases. The group's interests in such land have been recognised as leased assets and its corresponding lease obligations have been recognised as liabilities based on the accounting policy set out in note 1(h).

13 Fixed Assets *(Continued)*

(b) The analysis of net book value of properties is as follows: *(Continued)*
For the year ended 31 March 2007, contingent rentals incurred by the group in respect of the leases of land from the Government of Cambodia amounted to \$381,000 (2006: \$432,000). Except for these, none of the leases of the group includes contingent rentals.

Pursuant to lease agreements dated 26 July 2000, the company's subsidiaries in Cambodia leased another two parcels of land in Cambodia for a period of 70 years beginning in July 2000 with an option to renew, at an aggregate consideration of \$58,964,000. Such consideration was determined based on the purchase price borne by lessor which approximated the open market value.

Pursuant to a lease agreement dated 9 June 2006, the company's subsidiary in Cambodia leased an additional parcel of land in Cambodia for a period of 90 years beginning in June 2006 with an option to renew, at a cash consideration of \$18,177,000. Such consideration was based on arm-length negotiations with the lessor taking into account the open market value.

In respect of the group's properties in the PRC, other than Hong Kong, the group has been granted the right to use the land by the relevant PRC authorities for a period of 50 years, which expires in April 2044.

(c) Fixed Assets Held Under Finance Leases

In addition to the leasehold land and buildings accounted for as being held under finance leases in note (b) above, the group leases production plant and machinery and equipment under finance leases expiring from one to five years. In accordance with the relevant lease agreements, at the end of the lease term the group has the option to purchase the leased assets at a price deemed to be a bargain purchase option.

As at 31 March 2007, the net book value of plant and machinery and equipment held under finance leases were as follows:

	The group	
	2007	2006
	\$'000	*\$'000*
Plant and machinery	**15,283**	24,149
Furniture, fixtures and office equipment	**524**	344
	15,807	24,493

14 Investments in Subsidiaries

	The company	
	2007	2006
	$'000	*$'000*
Unlisted shares, at cost	**228,300**	228,300

All of these are subsidiaries as defined under note 1(c) and have been consolidated into the group's financial statements.

Name of company	**Place of incorporation/ operation**	**Particulars of issued and fully paid share capital/ registered capital**	**Proportion of ownership interest held by the company**	**Proportion of ownership interest held by a subsidiary**	**Principal activities**
Ever Century Holdings Limited	British Virgin Islands/ Hong Kong	700 ordinary shares of US$1 each	100	–	Investment holding
Tack Fat Swimwear Manufacturing Limited ("Tack Fat Swimwear")	Hong Kong	1,000 non-voting deferred shares of $10,000 each 2 ordinary shares of $10,000 each	–	100	Manufacturing and sale of garments
Tack Fat Manufacturing Factory Limited	Hong Kong	2 ordinary shares of $10 each	–	100	Trading of fabric and other materials
Chiu Wing Enterprise Company Limited	Hong Kong	3,000 non-voting deferred shares of $1,000 each 2 ordinary shares of $1,000 each	–	100	Property holding

(Expressed in Hong Kong dollars)

14 Investments in Subsidiaries *(Continued)*

Name of company	Place of incorporation/ operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the company	Proportion of ownership interest held by a subsidiary	Principal activities
Luoding Hua Tian Long Garment Ltd. *(note (i))*	PRC	US$10,280,039	–	100	Manufacturing of garments
Tack Fat Garment (Cambodia) Ltd. *(note (ii))*	Cambodia	Register capital of US$3,000,000	–	100	Manufacturing of garments
Cambodia Sportswear Mfg. Ltd. *(note (ii))*	Cambodia	Register capital of US$2,400,000	–	100	Manufacturing of garments
Supertex Limited *(note (ii))*	Cambodia	Register capital of US$250,000	–	100	Manufacturing of garments
Tack Fat International Holdings Limited	Hong Kong	10,000 non-voting deferred shares of $1 each 2 ordinary shares of $1 each	–	100	Investment holding
Lantern Services Limited	British Virgin Islands/ Hong Kong	2 ordinary shares of US$1 each	–	100	Investment holding
Potter Industries Limited	British Virgin Islands/ Hong Kong	2 ordinary shares of US$1 each	–	100	Investment holding
Blue Cat Enterprises Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1	–	100	Dormant
Newest Global Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1	–	100	Investment holding

(Expressed in Hong Kong dollars)

14 Investments in Subsidiaries *(Continued)*

Name of company	Place of incorporation/ operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the company	a subsidiary	Principal activities
Sino Profit Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1	–	100	Sale of garments
Global Far East (Macao Commercial Offshore) Limited	Macau	Register capital of MOP100,000	–	100	Sale of garments
Zhongshan Sing Long Garment Limited *(note (i))*	PRC	US$1,000,000	–	100	Manufacturing of garments
Menlo Dynamics Company Limited	British Virgin Islands/ Hong Kong	2 ordinary shares of $1 each	–	100	Investment holding
Well Fit Intimate Design and Manufacture Limited	Hong Kong	1 ordinary share of $1	–	100	Sale of garments
Well Fit Shenzhen Garment Manufacture Limited *(note (i))*	PRC	HK$25,600,000	–	100	Manufacturing of garments
Well Fit Apparel (Shenzhen) Limited *(note (i))*	PRC	$1,680,000	–	100	Dormant
Mudd Far East (H.K.) Limited	Hong Kong	1 ordinary share of $1	–	100	Investment holding
Masswin International Limited	British Vrigin Island	1 ordinary share of US$1	–	100	Investment holding
Luo Ding Fu Yu Apparel Limited *(note (i))*	PRC	$20,000,000	–	100	Retailing of garments
Anway Limited	British Virgin Island	1 ordinary share of US$1	–	100	Investment holding

Notes:

(i) These entities are wholly foreign owned enterprises established in the PRC.

(ii) These entities are wholly foreign owned limited companies incorporated pursuant to the Law on Investment in the Kingdom of Cambodia and the Law Bearing Upon Commercial Regulation and the Commercial Register.

15 Interests in Associates

	The group	
	2007	2006
	$'000	*$'000*
Share of net assets	**285,418**	171,334
Goodwill	**261,079**	261,079
	546,497	432,413

Impairment tests for cash-generating units containing goodwill

Goodwill is attributable to the associates' cash-generating units (CGU) identified according to its operating business segment, i.e., the design, manufacture and sale of garments and such goodwill amounted to approximately $261,079,000 as at 31 March 2007 and 2006. The recoverable amount of the CGU is determined based on value-in-use calculations. The calculations use cash flow projections based on financial budgets of the CGU covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2007	2006
Gross margin	**42%**	40%
Growth rate	**2%**	2%
Discount rate	**8%**	8%

The budgeted gross margin was determined by the group based on past performance and its expectation for market development. The growth rate is estimated by the group after taking into consideration of industry growth forecast. The discount rate used is pre-tax and reflect specific risks relating to the relevant segment. The group believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed its aggregate recoverable amount.

Pursuant to the sale and purchase agreement dated 26 July 2004, and supplemental agreement dated 22 February 2005, Lung Investment Holding, LLC, an independent third party (the "Vendor") has guaranteed that the aggregate audited consolidated/combined net profits before tax, charges for goodwill, minority interests and any extraordinary or exceptional items of Sino Legend Limited and its subsidiaries for the period from 21 May 2004 to 31 March 2007 will not be less than US$108 million (the "Guaranteed Profit"), as determined in accordance with accounting principles generally accepted in the United States of America, and that in the event that there is any short fall in the actual amount from the Guaranteed Profit, the Vendor shall compensate the Group in cash an amount equal to 2.95 times of the annualised shortfall attributable to 43.06% shares in Sino Legend. As at the date of approval of these financial statements, the group is in the process of completing the finalisation of the above compensation, if any. Accordingly, any resulting financial effect is to be accounted for in the annual financial statements of the Group for the forthcoming year as an adjustment to the cost of investment in Sino Legand and therefore as a reduction in the amount recorded as goodwill.

15 Interests in Associates *(Continued)*

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the group:

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activities
Sino Legend Limited	British Virgin Islands	1,000,000 preferred shares of US$0.01 each 200,000 ordinary shares of US$0.01 each	50%	–	50%	Investment holding
Mudd (USA) LLC	United States of America	72,000 class A units of US$40,000 20,000 class B units of US$10,000 8,000 class C units of US$Nil paid	40%	–	40%	Design, manufacture and sale of garments

Summary Financial Information on Associates

	Assets $'000	Liabilities $'000	Equity $'000	Revenue $'000	Profit/ (loss) $'000
2007					
100 per cent	837,400	266,565	570,835	1,002,565	228,167
Group's effective interest	418,700	133,282	285,418	501,283	114,084
2006					
100 per cent	747,052	404,384	342,668	621,356	(71,503)
Group's effective interest	373,526	202,192	171,334	310,678	(35,752)

16 Other Financial Assets

	The group	
	2007	2006
	$'000	*$'000*
Premium paid for option to acquire shares *(note (a))*	**78,000**	78,000
Investment securities – unlisted equity shares, at cost *(note (b))*	**15,000**	15,000
Club debentures	**1,100**	1,100
	94,100	94,100

Notes:

(a) The group bought an option to acquire an additional 20.8% equity interest in Sino Legend Limited at a cash consideration of $78,000,000 from Lung Investment Holding, LLC. The option is exercisable during the period from 1 April 2007 to 30 September 2007. Upon exercise of the option, the group is required to pay to Lung Investment Holding, LLC a further US$15.65 million (approximately $122.1 million) in cash for the acquisition of the 20.8% equity interest.

The option was not presently exercisable as at 31 March 2007 and it was carried at cost less any impairment loss at that date. The directors of the company have carried out an assessment of the recoverable amount of the option as at 31 March 2007 and concluded that there has been no impairment loss in the carrying value of the option.

(b) Pursuant to a sale and purchase agreement dated 1 June 2007, the investment in unlisted equity shares was disposed to an independent third party in June 2007 (note 34(f)).

17 Inventories

	The group	
	2007	2006
	$'000	*$'000*
Raw materials	**211,693**	167,557
Work in progress	**63,088**	52,831
Finished goods	**38,889**	27,681
	313,670	248,069

None of the inventories is stated at net realisable value.

18 Trade and Other Receivables

	The group	
	2007	2006
	$'000	*$'000*
Trade receivables *(note (a))*	**473,334**	491,857
Deposits with subcontractors for manufacturing of garments	**26,498**	33,188
Refundable acquisition deposit *(note (b))*	**281,800**	–
Other prepayments and receivables *(note (c))*	**51,476**	45,814
	833,108	570,859

Notes:

(a) As at 31 March 2007, trade receivables included an amount due from Mudd (USA) LLC, a principal associate of the group of $205,343,000 (2006: $294,233,000).

As at 31 March 2007, certain trade receivables amounting to $40,852,000 (2006: $11,270,000) were pledged as security for certain bill discounting loans (note 22).

(b) As at 31 March 2007, the Group placed a refundable deposit of $281,800,000 with Xbert Investment Limited ("the Vendor"), an independent third party in connection with the proposed acquisition of a controlling equity interest of 90% in Best Favous Group *(note 34(e))*. In June 2007, the Group applied the deposit in part settlement of the consideration payable to the Vendor in consummation of the acquisition.

(c) The balance at 31 March 2006 and 2007 included a prepayment of $30,000,000 for investment in unlisted equity shares in a joint stock company in the PRC (the "Investee"). The prepayment is to be applied for settlement of an equivalent amount of investment consideration payable by the company upon the successful completion of a reorganisation of the Investee. The prepayment is refundable in cash in the event that such reorganisation is not complete within certain specific date.

All the trade and other receivables are expected to be recovered within one year.

18 Trade and Other Receivables *(Continued)*

Credit terms granted by the group to customers generally range from one to six months. Included in trade receivables are balances (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The group	
	2007	2006
	$'000	*$'000*
Within 3 months	**472,474**	264,673
More than 3 months but less than 6 months	**860**	227,184
	473,334	491,857

The group's credit policy is set out in note 30(a).

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group	
	2007	2006
	'000	*'000*
Euro	**EUR 4,075**	EUR –
United States Dollars	**USD 56,812**	USD 63,911
Renminbi	**RMB 14,275**	RMB 6,042

19 Amounts due From Subsidiaries

The amounts due from subsidiaries at 31 March 2007 included a balance of $736,405,000, which is unsecured, bear interest at 2% per annum and not repayable within one year. The remaining balance is unsecured, interest free and repayable on demand.

The amounts due from subsidiaries at 31 March 2006 were unsecured and repayable on demand. Included in the amounts due from subsidiaries was a balance of $426,269,000 which was bearing interest at 2% per annum and the remaining balance was interest free.

20 Cash and Cash Equivalents

	The group		The company	
	2007	2006	**2007**	2006
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks	**320,792**	132,941	**–**	–
Cash at bank and in hand	**19,543**	43,745	**132**	88
Cash and cash equivalents in the balance sheet	**340,335**	176,686	**132**	88
Bank overdrafts *(note 22)*	**(4,395)**	(817)	**–**	–
Cash and cash equivalents in the cash flow statement	**335,940**	175,869		

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group		The company	
	2007	2006	**2007**	2006
	'000	*'000*	***'000***	*'000*
United States Dollars	**USD 1,667**	USD19,949	**USD 2**	USD 2
Renminbi	**RMB4,046**	RMB 4,984	**RMB –**	RMB –

21 Trade and Other Payables

	The group		The company	
	2007	2006	**2007**	2006
	$'000	*$'000*	***$'000***	*$'000*
Bills payable	**18,511**	21,768	**–**	–
Trade payables	**61,826**	49,437	**–**	–
Accrued expenses and other payables	**27,762**	11,268	**13,833**	110
	108,099	82,473	**13,833**	110

Included in accrued expenses and other payables at 31 March 2007 were receipts in advance amounting to $13,880,000 (2006: $nil) for new shares issued after the year end (note 34(b)).

21 Trade and Other Payables *(Continued)*

The credit terms obtained by the group generally range from 30 days to 180 days. Included in trade and bills payables are balances with the following ageing analysis as of the balance sheet date:

	The group	
	2007	2006
	$'000	*$'000*
Due within 1 month or on demand	**24,036**	25,722
Due after 1 month but within 3 months	**41,696**	37,207
Due after 3 months but within 6 months	**14,605**	8,276
	80,337	71,205

All of the above balances are expected to be settled within one year.

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group	
	2007	2006
	'000	*'000*
United States Dollars	**USD 1,838**	USD 4,942
Renminbi	**RMB 4,728**	RMB 2,414

22 Bank Loans and Overdrafts

At 31 March 2007, the bank loans and overdrafts were repayable as follows:

	The group	
	2007	2006
	$'000	*$'000*
Within 1 year or on demand	**287,188**	230,954
After 1 year but within 2 years	**384,000**	93,538
After 2 years but within 5 years	**–**	381,846
	384,000	475,384
	671,188	706,338

At 31 March 2007, the bank loans and overdrafts were analysed as follows:

	The group	
	2007	2006
	$'000	*$'000*
Bank overdrafts *(note 20)*	**4,395**	817
Trust receipt loans	**89,498**	135,741
Export finance loans	**34,947**	56,688
Bill discounting loans	**40,852**	11,270
Term loans	**501,496**	501,822
	671,188	706,338

Included in bank loans and overdrafts are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group	
	2007	2006
	'000	*'000*
Euro	**EUR 148**	EUR –
United States Dollars	**USD11,112**	USD15,075

22 Bank Loans and Overdrafts *(Continued)*

The banking facilities of the group were secured by corporate guarantees issued by the company. Due to the related party nature of these instruments, the directors considered it is not meaningful and practicable to estimate the fair values of such guarantees and therefore they have not been recognised in the company's financial statements.

Certain banking facilities included financial covenants relating to certain of the group's balance sheet ratios and minimum shareholding requirements required to be complied with by the group and certain principal shareholders of the company respectively, as are commonly found in lending arrangements with financial institutions. If the group were to breach the covenants, the drawn down facilities would become payable on demand. The group regularly monitors its compliance with these covenants. Further details of the group's management of liquidity risk are set out in note 30(b). As at 31 March 2007, none of the covenants relating to drawn down facilities had been breached (2006: none).

23 Convertible Bonds

	The group and the company	
	2007	2006
	$'000	*$'000*
Unlisted and unsecured redeemable convertible bonds	**157,720**	187,776

Pursuant to a bond placement agreement dated 13 September 2004, the company issued US$30,000,000 (approximately $234,000,000) convertible bonds bearing interest at 1% per annum payable in quarters to independent investors on 11 October 2004. The convertible bonds will mature on 12 October 2009. The bonds are convertible into the company's shares at the conversion price of $1.00 after three months from 11 October 2004 provided that up to a maximum of 50% of the bonds may be converted within the first 12 months from the date of issue. Each bondholder has a put option such that the company shall redeem the bonds upon exercise of the option by the relevant bondholder under the following circumstances: (i) on the third and fifth anniversaries from the date of bond issue; or (ii) if the company's shares are de-listed or suspended from trading on the SEHK for more than 14 consecutive trading days; or (iii) if there is a change in control of the company.

During the year, convertible bonds totalling US$7,000,000 (approximately $54,570,000) were converted into ordinary shares (note 29(c)(ii)).

Subsequent to the year end, convertible bonds totalling US$3,400,000 (approximately $26,295,000) were converted into ordinary shares in May 2007 (note 34(c)).

24 Obligations Under Finance Leases

At 31 March 2007, the group had obligations under finance leases repayable as follows:

	2007		2006	
	Present value of minimum lease payments $'000	Total minimum lease payments $'000	Present value of minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	6,914	7,571	10,989	11,643
After 1 year but within 2 years	2,863	3,265	2,641	2,922
After 2 years but within 5 years	1,053	2,090	872	1,550
After 5 years	34,016	44,736	34,223	41,400
	37,932	50,091	37,736	45,872
	44,846	57,662	48,725	57,515
Less: Total future interest expense		(12,816)		(8,790)
Present value of lease obligations		44,846		48,725

As at 31 March 2007, certain finance lease obligations amounting to $6,446,000 (2006: $13,065,000) were secured by corporate guarantees issued by the company. Due to the related party nature of these instruments, the directors considered it is not meaningful and practicable to estimate the fair values of such guarantees and therefore they have not been recognised in the company's financial statements.

25 Provision for Long Service Payments

	The group *$'000*
At 31 March 2006 and 2007	1,800

According to Part VB of the Employment Ordinance ("the Ordinance"), the company is liable to make long service payments to the employees who have completed the required number of years of service on termination of their employment and where the termination of employment meets the required circumstances as specified in the Ordinance.

At 31 March 2007, a provision of $1,800,000 (2006: $1,800,000) has been made by the group based on the best estimate of the long service payments that are required to be made to employees in respect of their service to date, less any amounts that would be expected to be met out of the company's mandatory provident fund contributions.

26 Employee Retirement Benefits

The group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

In addition, the group's subsidiaries in the PRC participate in a defined contribution retirement scheme organised by the PRC municipal government. These subsidiaries are required to make contributions at 18% of the relevant PRC employees' salaries to the scheme.

The group is not required to operate a retirement scheme for its employees' in Cambodia.

Save as disclosed above, the group has no other obligations to make payments in respect of retirement benefits of the employees.

(Expressed in Hong Kong dollars)

27 Equity Settled Share-Based Transactions

The company has a share option scheme which was adopted on 11 April 2002 whereby the directors of the company are authorised, at their discretion, to invite any full-time employees, directors and part-time employees of the group, any advisers (professional or otherwise) or consultants, distributors, suppliers, agents, customers, partners, joint venture partners, promoters, service providers to the group to take up options to subscribe for shares of the company.

The exercise price is determined by the board of directors at its absolute discretion and notified to each option holder but shall be no less than the highest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the SEHK on the date of grant, (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the SEHK for the five business days immediately preceding the date of grant, and (iii) the nominal value of a share on the date of grant. The options may be exercised in accordance with the terms of the share option scheme at any time during a period to be notified by the board of directors to each option holder but may not be exercised after the expiry of ten years from the date of grant. The board of directors may provide restrictions on the exercise of an option during the period an option may be exercised. Each option gives the holder the right to subscribe for one ordinary share in the company.

(a) The terms and conditions of the grants that existed as at 31 March 2007 and 2006 are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	**Vesting conditions**	**Contractual life of options**
Options granted to employees outstanding at 31 March 2007:			
On 8 November 2004	32,000,000	Date of grant	3 years
On 24 October 2005	70,000,000	Date of grant	3 years
	102,000,000		
Options granted to employees outstanding at 31 March 2006:			
On 8 November 2004	68,000,000	Date of grant	3 years
On 24 October 2005	70,000,000	Date of grant	3 years
	138,000,000		

27 Equity Settled Share-Based Transactions *(Continued)*

(b) The number and weighted average exercise prices of share options are as follows:

	2007		2006	
	Weighted average exercise price **$**	**Number of options** **'000**	Weighted average exercise price $	Number of options '000
Outstanding at the beginning of the period	**0.676**	**138,000**	0.74	68,000
Exercise during the period	**0.740**	**(36,000)**	–	–
Granted during the period		**–**	0.614	70,000
Outstanding at the end of the period		**102,000**		138,000
Exercisable at the end of the period		**102,000**		138,000

The options outstanding at 31 March 2007 had an exercise price of $0.614 to $0.74 (2006: $0.614 to $0.74) and a weighted average remaining contractual life of 1.3 years (2006: 2.1 years).

27 Equity Settled Share-Based Transactions *(Continued)*

(c) Fair Value of Share Options and Assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share option is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value and assumptions for 70 million share options issued on 24 October 2005	
Fair value at measurement date	
Share price	\$0.58
Exercise price	\$0.614
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	32.9%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	1.9 years
Expected dividends	6%
Risk-free interest rate (based on Exchange of Fund Notes)	4.064%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

28 Income Tax in the Balance Sheet

(a) Current taxation in the balance sheet represents:

	The group	
	2007	2006
	$'000	*$'000*
Provision for Hong Kong Profits Tax for the year	**8,739**	12,879
Balance of Profits Tax provision relating to prior years	**28,954**	14,605
Provisional Profits Tax paid	**(3,466)**	(1,147)
	34,227	26,337
Taxation outside Hong Kong	**–**	7,507
	34,227	33,844

None of the tax payable is expected to be settled after more than one year.

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation	
	2007	2006
	$'000	*$'000*
The group		
Deferred tax arising from:		
At 1 April	**2,756**	7,590
Exchange adjustments	**23**	(62)
Credited to profit or loss *(note 6(a))*	**(2,542)**	(4,772)
At 31 March	**237**	2,756

There were no material unprovided deferred tax assets or liabilities as at 31 March 2007.

29 Capital and Reserves

(a) The Group

	Share capital $'000	Share premium $'000	Land and buildings revaluation reserve $'000	Capital reserve $'000	Exchange reserve $'000	Contributed surplus $'000	PRC statutory reserve $'000	Retained earnings $'000	Total $'000
At 1 April 2005	151,666	81,165	–	56,931	–	6,400	40	449,713	745,915
Dividend approved in respect of previous year *(note 10)*	–	–	–	–	–	–	–	(30,333)	(30,333)
Equity settled share-based transactions	–	–	–	5,670	–	–	–	–	5,670
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	–	2,522	–	–	–	2,522
Profit for the year	–	–	–	–	–	–	–	132,626	132,626
Profit appropriation to reserve funds	–	–	–	–	–	–	34	(34)	–
Dividend declared in respect of the current year *(note 10)*	–	–	–	–	–	–	–	(18,200)	(18,200)
At 31 March 2006	151,666	81,165	–	62,601	2,522	6,400	74	533,772	838,200

	Share capital $'000	Share premium $'000	Capital reserve $'000	Exchange reserve $'000	Contributed surplus $'000	PRC statutory reserve $'000	Retained earnings $'000	Total $'000
At 1 April 2006	151,666	81,165	62,601	2,522	6,400	74	533,772	838,200
Shares issued								
– placement of new shares	39,277	363,961	–	–	–	–	–	403,238
– exercise of share options	3,600	23,040	–	–	–	–	–	26,640
– conversion of convertible bonds	5,457	49,113	(13,650)	–	–	–	–	40,920
Dividend approved in respect of previous year *(note 10)*	–	–	–	–	–	–	(31,851)	(31,851)
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	5,389	–	–	–	5,389
Profit for the year	–	–	–	–	–	–	314,639	314,639
Profit appropriation to reserve funds	–	–	–	–	–	47	(47)	–
Dividend declared in respect of the current year *(note 10)*	–	–	–	–	–	–	(21,303)	(21,303)
At 31 March 2007	200,000	517,279	48,951	7,911	6,400	121	795,210	1,575,872

29 Capital and Reserves *(Continued)*

(b) The Company

	Share capital $'000	Share premium $'000	Capital reserve $'000	Contributed surplus $'000	Retained earnings $'000	Total $'000
At 1 April 2005	151,666	81,165	56,931	193,780	(1,413)	482,129
Dividend approved in respect of the previous year *(note 10)*	–	–	–	–	(30,333)	(30,333)
Equity settled share-based transactions	–	–	5,670	–	–	5,670
Profit for the year	–	–	–	–	54,569	54,569
Dividends declared in respect of the current year *(note 10)*	–	–	–	–	(18,200)	(18,200)
At 31 March 2006	151,666	81,165	62,601	193,780	4,623	493,835
At 1 April 2006	151,666	81,165	62,601	193,780	4,623	493,835
Placement of new shares	39,277	363,961	–	–	–	403,238
Exercise of share options	3,600	23,040	–	–	–	26,640
Conversion of convertible bonds	5,457	49,113	(13,650)	–	–	40,920
Dividend approved in respect of the previous year *(note 10)*	–	–	–	–	(31,851)	(31,851)
Profit for the year	–	–	–	–	66,068	66,068
Dividends declared in respect of the current year *(note 10)*	–	–	–	–	(21,303)	(21,303)
At 31 March 2007	200,000	517,279	48,951	193,780	17,537	977,547

29 Capital and Reserves *(Continued)*

(c) Share Capital

		2007		2006	
		Number of shares	**Amount**	Number of shares	Amount
			$'000		*$'000*
Authorised:					
Ordinary shares of $0.1 each		**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid:					
At 1 April		**1,516,664,000**	**151,666**	1,516,664,000	151,666
Placement of new shares in:	*(i)*				
– April 2006		**227,500,000**	**22,750**	–	–
– February 2007		**165,266,000**	**16,527**	–	–
Conversion of convertible bonds	*(ii)*	**54,570,000**	**5,457**	–	–
Shares issued under share option scheme	*(iii)*	**36,000,000**	**3,600**	–	–
At 31 March		**2,000,000,000**	**200,000**	**1,516,664,000**	**151,666**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

(i) Shares issued

On 10 April 2006, Efulfilment Enterprise Limited ("Efulfilment"), a controlling shareholder of the Company entered into a placing agreement to place 227,500,000 existing shares of the Company to independent investors at a placing price of $1.03 per share. On the same date, Efulfilment entered into a subscription agreement to subscribe for 227,500,000 new shares of the Company at a subscription price of $1.03 per share. The net share proceeds, after deduction of transaction costs, amounted to $227,037,000.

On 12 February 2007, Efulfilment entered into a placing agreement to place 178,000,000 existing shares of the Company to independent investors at a placing price of $1.09 per share. On the same date, Efulfilment entered into a subscription agreement to subscribe for 178,000,000 new shares of the Company at a subscription price of $1.09 per share. In this connection, the Company issued 165,266,000 new ordinary shares in February 2007 and the remaining 12,734,000 new ordinary shares in April 2007 (note 34). The net share proceeds, after deduction of transaction costs, amounted to $176,201,000 and $13,576,000 respectively for the shares issued in February and April 2007.

29 Capital and Reserves *(Continued)*

(c) Share Capital *(Continued)*

(ii) Conversion of convertible bonds

During the year, convertible bonds totalling of US$7,000,000 ($54,570,000) were converted at a conversion price of $1.00 per share into 54,570,000 ordinary shares ordinary shares respectively of the Company (note 23).

(iii) Shares issued under share option scheme

In February 2007, 36,000,000 share options were exercised at an exercise price of $0.74 per share to subscribe for 36,000,000 ordinary shares in the company.

Subsequent to the year end date, an additional 32,000,000 and 42,000,000 share options were exercised in May 2007 and June 2007 respectively, (note 34(d)).

(d) Nature and Purpose of Reserves

(i) Share Premium

In accordance with the Companies Law of the Cayman Islands, the share premium account is 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 they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

(ii) Contributed Surplus

The contributed surplus represents the difference between the combined net asset value of the subsidiaries acquired pursuant to the reorganisation in April 2002 over the nominal value of the shares of the company issued in exchange therefore. The application of contributed surplus is the same as the share premium.

29 Capital and Reserves *(Continued)*

(d) Nature and Purpose of Reserves *(Continued)*

(iii) PRC Statutory Reserve

In accordance with the relevant PRC laws applicable to enterprises with foreign investment, the company's subsidiaries in the PRC are required to transfer at least 10% of their annual net profit determined under relevant PRC accounting regulations to the general reserve until the balance of the reserve is equal to 50% of the entities' registered capital. This reserve can be used to convert into paid-in capital and offset to reduce prior years' losses, if any.

(e) Distributability of Reserves

At 31 March 2007, the aggregate amount of reserves available for distribution to equity shareholders of the company was $728,596,000 (2006: $279,568,000). After the balance sheet date, the directors proposed a final dividend of 2 cents per share (2006: 1.81 cents per share), amounting to $42,267,000 (2006: $31,569,000). This dividend has not been recognised as a liability at the balance sheet date.

30 Financial Instruments

As at 31 March 2007, the group's financial assets comprise mainly other financial assets, trade and other receivables and cash and cash equivalents. The group's financial liabilities comprised mainly trade and other payables, convertible bonds and bank borrowings.

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

(a) Credit Risk

The group's credit risk is primarily attributable to trade and other receivables and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due from one to six months from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the group does not obtain collateral from customers.

Most of the group's cash and cash equivalents are deposited with banks in Hong Kong and the PRC.

30 Financial Instruments *(Continued)*

(a) Credit Risk *(Continued)*

At 31 March 2007, the group had a trade receivable due from an associate, Mudd (USA) LLC of $205,343,000 (2006: $294,233,000). Except for this, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity Risk

Individual operating entities within the group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

30 Financial Instruments *(Continued)*

(c) Interest Rate Risk

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The group

	2007						2006					
	Effective interest rate %	Total $'000	One year or less $'000	1 – 2 years $'000	2 – 5 years $'000	More than 5 years $'000	Effective interest rate %	Total $'000	One year or less $'000	1 – 2 years $'000	2 – 5 years $'000	More than 5 years $'000
Repricing dates for assets/ (liabilities) which reprice before maturity												
Cash and cash equivalents	0.54	19,543	19,543	–	–	–	1.30	43,745	43,745	–	–	–
Bank overdrafts	7.36	(4,395)	(4,395)	–	–	–	8.00	(817)	(817)	–	–	–
Bank loans	5.11	(666,793)	(282,793)	(384,000)	–	–	5.24	(705,521)	(230,137)	(93,538)	(381,846)	–
		(651,645)	(267,645)	(384,000)	–	–		(662,593)	(187,209)	(93,538)	(381,846)	–
Maturity dates for assets/ (liabilities) which do not reprice before maturity												
Deposits with banks	4.05	320,792	320,792	–	–	–	3.97	132,941	132,941	–	–	–
Finance lease liabilities	2.00	(44,846)	(6,914)	(2,863)	(1,053)	(34,016)	2.24	(48,725)	(10,989)	(2,641)	(872)	(34,223)
Convertible bonds	7.15	(157,720)	(157,720)	–	–	–	7.15	(187,776)	–	(187,776)	–	–
		118,226	156,158	(2,863)	(1,053)	(34,016)		(103,560)	121,952	(190,417)	(872)	(34,223)

30 Financial Instruments *(Continued)*

(c) Interest Rate Risk *(Continued)*

Effective Interest Rates and Repricing Analysis (Continued)

The company

	2007						2006					
	Effective interest rate %	Total $'000	One year or less $'000	1 – 2 years $'000	2 – 5 years $'000	More than 5 years $'000	Effective interest rate %	Total $'000	One year or less $'000	1 – 2 years $'000	2 – 5 years $'000	More than 5 years $'000
Repricing dates for assets/ (liabilities) which reprice before maturity												
Cash and cash equivalents	**0.14**	**132**	**132**	**–**	**–**	**–**	0.14	88	88	–	–	–
Maturity dates for assets/ (liabilities) which do not reprice before maturity												
Convertible bonds	**7.15**	**(157,720)**	**–**	**(157,720)**	**–**	**–**	7.15	(187,776)	–	(187,776)	–	–

(d) Foreign Currency Risk

The group is exposed to foreign currency risk primarily through sales to overseas customers and purchases from overseas suppliers which are generally denominated in United States Dollars, Euro and Renminbi. The group also has bank deposits and obtain bank loans which are primarily denominated in United States Dollars, Euro and Renminbi. The group reviews its foreign currency exposures regularly and does not consider its present foreign exchange risk to be significant. However, the group would consider hedging of its foreign currency exposures when its foreign exchange risk becomes significant.

(e) Fair Values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2007 and 2006.

31 Commitments

(a) Capital commitments outstanding at 31 March 2007 not provided for in the financial statements were as follows:

		The group	
		2007	2006
		$'000	*$'000*
(i)	Acquisition of fixed assets		
	– Contracted for	**2,136**	7,578
	– Authorised but not contacted for	**6,223**	4,550
		8,359	12,128
(ii)	Investment commitment *(note 34(e))*	**330,000**	–

(b) At 31 March 2007, the total future minimum lease payments under non-cancellable operating leases are repayable as follows:

	The group	
	2007	2006
	$'000	*$'000*
Within 1 year	**12,737**	3,584
After 1 year but within 5 years	**7,678**	198
After 5 years	**235**	–
	20,650	3,782

The group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated.

32 Contingent Liabilities

(a) A writ of summons dated 29 February 2000 was filed by a supplier of the group against Tack Fat Swimwear Manufacturing Limited, a wholly-owned subsidiary of the company, claiming a sum of US$202,850 (equivalent to $1,582,000) for an alleged breach of the payment terms under certain purchase contracts. Based on the advice obtained from the legal advisers acting for Tack Fat Swimwear, the directors of the company are of the view that Tack Fat Swimwear has a valid defence and counterclaim against the supplier. Consequently, no provision for such litigation or the associated legal costs has been included in the financial statements.

(b) As at 31 March 2007, the company issued letters of guarantee in respect of bank facilities totalling $1,078,050,000 (2006: $1,366,405,000) and finance lease obligations totalling $6,446,000 (2006: $13,065,000) granted to certain wholly-owned subsidiaries of the Company.

(c) As disclosed in note 6 (a), the HKIRD is carrying out a review of certain taxation affairs of the group and depending on the outcome of such review, the group may become liable to pay additional tax and/or penalties up to three times of any tax underpaid. The group has carried out a review on its tax position and based on the review, the group has made additional provisions where required. The directors are of the view that it is unlikely that the group may become liable to any penalty or further taxes.

33 Related Party Transactions

(a) During the year, the group had the following material transactions with related parties which were carried out on normal commercial terms and in the ordinary course of the business of the group.

	Note	**2007** **$'000**	2006 $'000
Sales	*(i)*	**535,879**	412,030
Reimbursement of expenses	*(ii)*	**1,933**	1,725
Warehouse rentals	*(iii)*	**372**	372
Directors' quarters rentals paid to	*(iv)*		
– Jumbo Team		**816**	816
– Granco		**816**	816
Guangzhou office rentals	*(v)*	**510**	490

Notes:

(i) In 2007, the Group sold garments totalling $535,879,000 to its principal associate, Mudd (USA) LLC. For those products supplied through independent suppliers, the selling prices charged by the group generally represented a mark-up at certain fixed percentages on the purchase prices of garments borne by the group. For those products manufactured by the group, the selling prices charged by the group were determined with reference to the selling prices charged to other customers.

(ii) In 2007, the group received reimbursements for certain procurement charges incurred on behalf of Mudd (USA) LLC.

(iii) The group entered into lease arrangements with Mr Kwok Wing, a director of the company, and his mother for leasing of a warehouse. The lease currently in force will expire on 22 October 2007 and the monthly rental payable by the group under such lease is $31,000, which was determined by reference to open market value.

(iv) The group had a lease arrangement with Jumbo Team Development Limited ("Jumbo Team") and Granco Enterprises Limited ("Granco") for the provision of directors' quarters to the group. Both Granco and Jumbo Team are jointly owned by Mr Kwok Wing and his brother. On 6 March 2007, the leases with Granco and Jumbo Team were renewed for a period of one year beginning on 1 April 2007. The monthly rental payable by the group under each of the new leases is $68,000, which was determined by reference to open market value.

33 Related Party Transactions *(Continued)*

(a) *(Continued)*

Notes: (Continued)

(v) The group had a lease arrangement with Guangzhou Tack Fat Construction Co., Ltd., a company which is controlled by Mr Kwok Wing and his brother for leasing of an office property in Guangzhou, the PRC. The lease currently in force expires on 26 October 2007 and the monthly rental payable by the group under such lease is approximately RMB43,000, which was determined by reference to open market value.

(b) Key Management Personnel Remuneration

Remuneration for key management personnel of the group, including amounts paid to the company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2007	2006
	$'000	*$'000*
Short-term employee benefits	**7,402**	8,299
Equity compensation benefits	**–**	2,594
	7,402	10,893

Total remuneration is included in "staff costs" (note 5).

34 Non-Adjusting Post Balance Sheet Events

(a) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 10.

(b) Pursuant to an ordinary resolution passed in an extraordinary general meeting held on 12 April 2007, the company's authorised share capital was increased to $400,000,000 by the creation of an additional 2,000,000,000 ordinary shares of $0.1 each, ranking pari passu with the existing ordinary shares of the company in all respects.

Pursuant to the placing agreement entered into in February 2007 and subsequent revised placing agreement, the company issued the remaining of 12,734,000 new ordinary shares at a subscription price of $1.09 per share to independent investors (note 29(c)).

(c) In May 2007, convertible bonds totalling US$3,400,000 (approximately $26,595,000) were converted at conversion price of $1.00 per share into 26,594,800 ordinary shares of the company (note 23).

34 Non-Adjusting Post Balance Sheet Events *(Continued)*

(d) In May 2007, 32,000,000 share options were exercised at an exercise price of $0.74 per share to subscribe for 32,000,000 ordinary shares in the Company. In June 2007, 42,000,000 share options were exercised at an exercise price of $0.614 per share to subscribe for 42,000,000 ordinary shares in the company.

(e) Pursuant to the sale and purchase agreement dated 25 May 2007, the Group acquired a controlling equity interest of 90% in Best Favour Investments Limited ("Best Favour") from the Vendor at a cash consideration of $330,000,000 in June 2007. As at 31 March 2007, the group placed a refundable deposit of $281,800,000 with the Vendor for such acquisition (note 18(b)). Best Favour is an investment holding company incorporated in the British Virgin Islands. Best Favour together with its subsidiaries is principally engaged in the retailing sale of causal wear throughout various major cities in the PRC.

Further details of the acquisition are set out below:

	$'000
Net assets acquired	
Non-current assets	
Fixed assets	15,922
Intangible assets	165,184
	181,106
Net current assets	102,438
Net assets acquired	283,544
Goodwill on acquisition	46,456
	330,000
Satisfied by:	
Cash paid to the Vendor	330,000

The initial accounting for the acquisition has not been finalization pending the finalisation of the valuation of fixed assets and intangible assets at acquisition date.

(f) In June 2007, the group disposed of an investment in unlisted equity shares with carrying value of $15,000,000 to an independent third party at a cash consideration of $15,000,000. No gain or loss arose from the disposal (note 16).

35 Immediate and Ultimate Controlling Party

At 31 March 2007, the directors consider the immediate parent and ultimate controlling party of the group to be Efulfilment Enterprises Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

36 Accounting Estimates and Judgements

Certain critical accounting judgements in applying the group's accounting policies are described below.

(i) Write Down of Inventories

The group performs regular review of the carrying amounts of inventories with reference to ageing analysis, historical consumption trends and management judgement. Based on this review, write down of inventories would be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market trend, actual sales may be different from estimation and profit or loss could be affected by the accuracy of this estimation.

(ii) Impairment of Goodwill

The group performs an annual review of the recoverable amount of goodwill with reference to its net selling price and value in use. Value in use is determined using the discounted cash flow method. Due to inherent risk associated with estimations in the timing and magnitude of the future cash flows, the estimated recoverable amount of goodwill may be different from its actual recoverable amount and profit or loss could be affected by accuracy of the estimations.

(iii) Provision for Income Tax

Provision for income tax is made based on the taxable income for the period as determined by the group. The determination of taxable income involves the exercise of judgement on interpretation of the relevant tax rules and regulations. The amount of income tax and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

37 Possible Impact of Amendments, New Standards and Interpretations Issued but not Yet Effective for the Year Ended 31 March 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2007 and which have not been adopted in these financial statements.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

Group Properties

Details of the property interests owned by the group are as follows:

Location	Existing use	Term of lease
Gan Yuan Luoding City Guangdong Province The People's Republic of China	Industrial	Medium-term
1159 Chak Angre Krom Meanchey District Phnom Penh Cambodia	Industrial	Long-term
1533 Chak Angre Krom Meanchey District Phnom Penh Cambodia	Industrial	Long-term
Group 13, Prek Tanou Village Chak Angre Len Quarter Meanchey District Phnom Penh Cambodia	Industrial	Long-term
Unit D on 19/F and Units A to C on 13/F Roxy Industrial Centre 58-66 Tai Lin Pai Road Kwai Chung, New Territories Hong Kong	Industrial	Medium-term

Five Year Summary

(Expressed in Hong Kong dollars)

	2003	2004	2005	2006	**2007**
	$'000	*$'000*	*$'000*	*$'000*	***$'000***
	(restated)	(restated)	(restated)		
Results					
Turnover	885,031	989,413	1,528,999	1,655,166	**1,942,545**
Profit from operations	134,131	148,123	194,194	262,346	**279,084**
Finance costs	(19,695)	(18,001)	(26,583)	(63,189)	**(65,839)**
Share of profits less losses of associates	–	–	–	(35,752)	**114,084**
Profit before taxation	114,436	130,122	167,611	163,405	**327,329**
Taxation	(9,636)	(8,386)	(12,072)	(30,779)	**(12,690)**
Profit for the year attributable to equity shareholders of the company	104,800	121,736	155,539	132,626	**314,639**
Earnings per share					
– Basic *(note 2)*	8.05 cents	8.82 cents	10.71 cents	8.74 cents	**17.64 cents**
– Diluted	7.92 cents	8.37 cents	9.81 cents	8.21 cents	**16.07 cents**
Assets and liabilities					
Fixed assets	256,801	313,154	348,352	379,785	**466,279**
Interest in associates	–	–	–	432,413	**546,497**
Other non-current assets	5,973	18,742	43,843	94,100	**94,100**
Net current assets	222,294	644,615	849,508	637,354	**1,050,685**
Total assets less current liabilities	485,068	976,511	1,241,703	1,543,652	**2,157,561**
Non-current liabilities	(79,127)	(445,592)	(554,028)	(705,452)	**(581,689)**
NET ASSETS	405,941	530,919	687,675	838,200	**1,575,872**
CAPITAL AND RESERVES					
Share capital	133,557	141,058	151,666	151,666	**200,000**
Reserves	272,384	389,861	536,009	686,534	**1,375,872**
TOTAL EQUITY	405,941	530,919	687,675	838,200	**1,575,872**

(Expressed in Hong Kong dollars)

Notes:

(1) Hong Kong Statement of Standard Accounting Practice 12 (revised) "Income taxes" was first effective for accounting periods beginning on or after 1 January 2003. In order to comply with this revised statement, the Group adopted a new accounting policy for deferred taxation with effect from 1 April 2004. Figures for the financial year ended 31 March 2003 were also restated.

(2) In order to comply with HKFRS 2 "Share-based payment" the group adopted a new accounting policy for employee share options with effect from 1 April 2005. The group took advantage of the transitional provisions set out in HKFRS 2, under which the new policy was not applied retrospectively to all options granted to employees on or before 7 November 2002 and all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

(3) With effect from 1 April 2005, in order to comply with HKAS 17 "Leases", the Group has adopted a new policy for leasehold land and buildings held for own use. The new policy has been adopted retrospectively with comparative amounts for the financial year ended 31 March 2005 restated. Figures for the financial years ended 31 March 2003 and 2004 were not restated.

(4) In order to comply with HKAS 39 "Financial instruments: Recognition and measurement", the group changed its accounting policies relating to convertible bonds with effect from 1 April 2005. In accordance with the transitional provisions of HKAS 39, the change in accounting policy was adopted by way of opening balance adjustments to certain reserves as at 1 April 2005. Figures in financial years earlier than 1 April 2005 were not restated as this is prohibited by the transitional arrangements in HKAS 39.

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