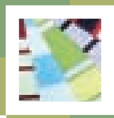
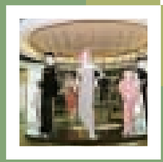
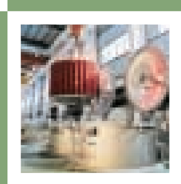




VICTORY CITY
INTERNATIONAL HOLDINGS LIMITED
冠華國際控股有限公司

ANNUAL REPORT 2006 年報

(Stock Code 股份代號：539)



Contents

Corporate Information	2
Financial Highlights and Summary	4
Chairman's Statement	9
Management Discussion and Analysis	14
Profiles of Directors and Senior Management	18
Directors' Report	21
Corporate Governance Report	32
Auditors' Report	39
Consolidated Income Statement	41
Consolidated Balance Sheet	42
Consolidated Statement of Changes in Equity	43
Consolidated Cash Flow Statement	44
Notes to the Financial Statements	45

Corporate Information

Board of Directors

Executive

Li Ming Hung *(Chairman)*

Chen Tien Tui *(Chief Executive Officer)*

So Kam Wah

Lee Yuen Chiu, Andy

Choi Lin Hung

Independent Non-Executive

Kan Ka Hon

Phaisalakani Vichai (Andy Hung)

Kwok Sze Chi *(appointed on 31 March 2006)*

Lau Chung Kwan *(resigned on 31 March 2006)*

Company Secretary

Lee Chung Shing

Solicitors

Chiu & Partners

Auditors

Deloitte Touche Tohmatsu

Bankers

The Hongkong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

DBS Bank (Hong Kong) Limited

HSH Nordbank AG

Bank of America, N.A.

United Overseas Bank Limited

Bank of China (Hong Kong) Limited

BNP Paribas

Industrial and Commercial Bank of China (Asia) Limited

Banca di Roma SpA

Scotiabank (Hong Kong) Limited

The Bank of Toyko-Mitsubishi, Limited

The Bank of East Asia, Limited

Citibank, N.A.

Mizuho Corporate Bank, Limited

Banco Bilbao Vizcaya Argentaria, S.A.

Sumitomo Mitsui Banking Corporation

Standard Chartered Bank (Hong Kong) Limited

Wells Fargo Bank, N.A.

Wing Hang Bank, Limited

Principal Share Registrars

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM 08

Bermuda

Branch Share Registrars in Hong Kong

Secretaries Limited

26/F., Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

Registered Office

Clarendon House

Church Street

Hamilton HM 11

Bermuda

Head Office and Principal Place of Business

Unit D, 3rd Floor

Winfield Industrial Building

3 Kin Kwan Street

Tuen Mun

New Territories

Hong Kong

Company Website

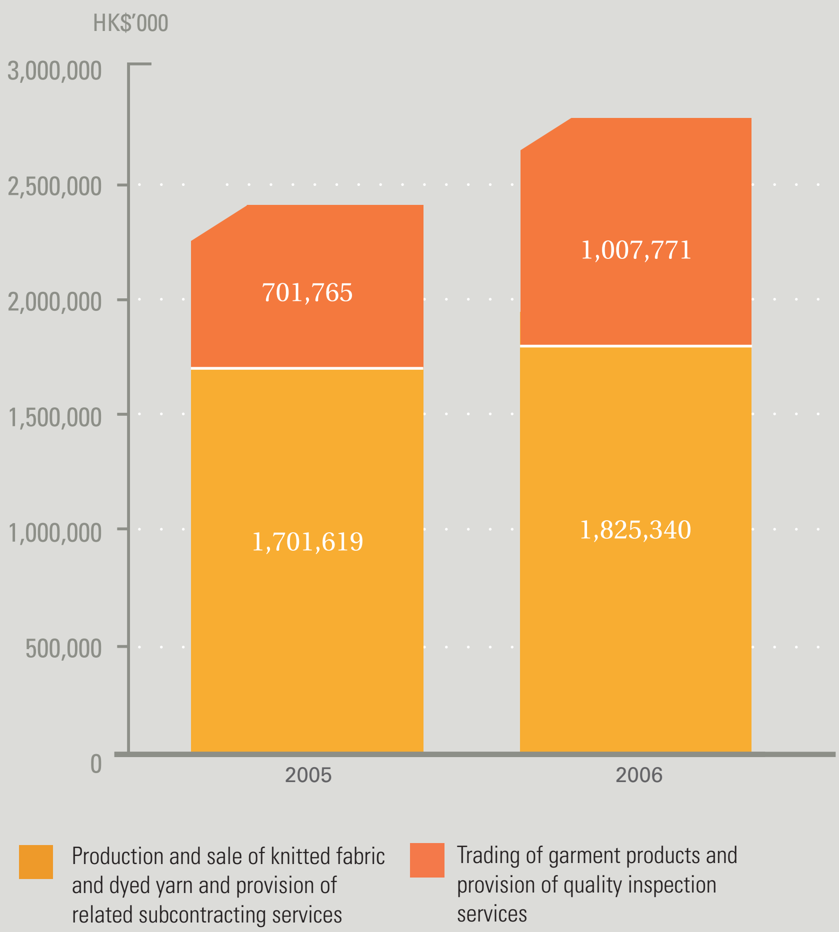
www.victorycity.com.hk

Financial Highlights and Summary

RESULTS

	YEAR ENDED 31 MARCH				
	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000 (restated)	2006 HK$'000
Revenue	872,572	1,249,029	1,714,821	2,403,384	2,833,111
Profit before taxation	37,142	118,383	183,614	235,669	301,659
Income tax expense	(1,816)	(11,761)	(11,607)	(15,657)	(27,941)
Profit for the year	35,326	106,622	172,007	220,012	273,718
Attributable to:					
Equity holders of the Company	33,683	92,268	153,290	202,655	250,269
Minority shareholders	1,643	14,354	18,717	17,357	23,449
	35,326	106,622	172,007	220,012	273,718
Distributions	10,793	32,826	47,794	62,132	75,947

REVENUE BY BUSINESS SEGMENTS

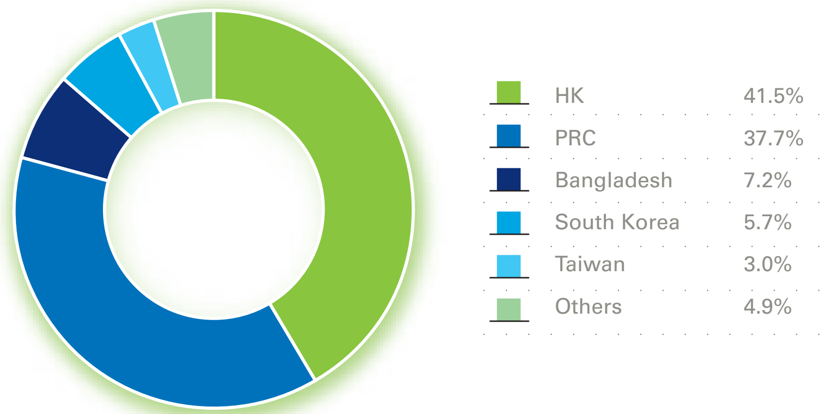


ASSETS AND LIABILITIES

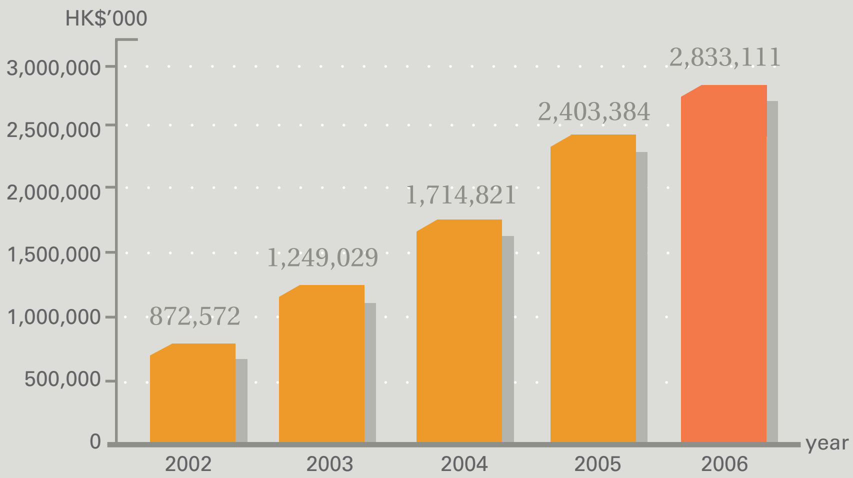
	AT 31 MARCH 2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000 (restated)	2006 HK$'000
Total assets	803,180	1,043,507	1,968,941	2,583,256	3,638,188
Total liabilities	(394,183)	(457,914)	(1,047,894)	(1,474,583)	(2,035,501)
	408,997	585,593	921,047	1,108,673	1,602,687
Equity attributable to:					
Equity holders of the Company	402,010	570,132	896,669	1,071,103	1,547,162
Minority shareholders	6,987	15,461	24,378	37,570	55,525
	408,997	585,593	921,047	1,108,673	1,602,687

REVENUE BY GEOGRAPHICAL SEGMENTS

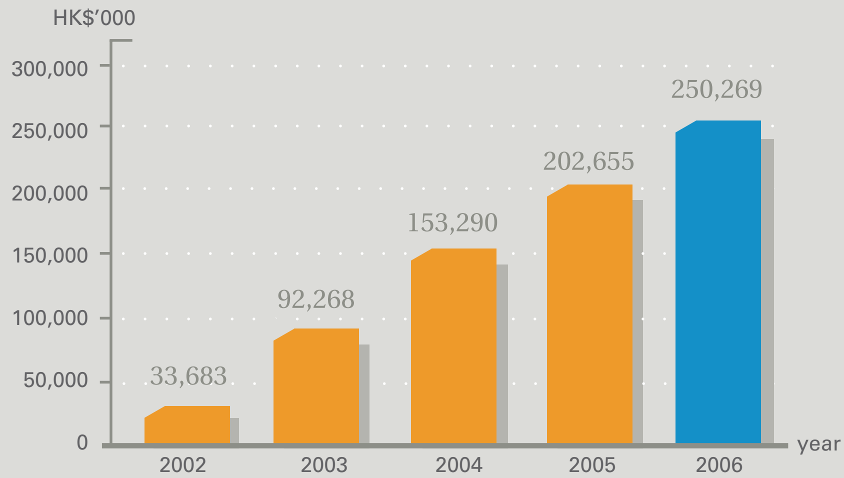
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services



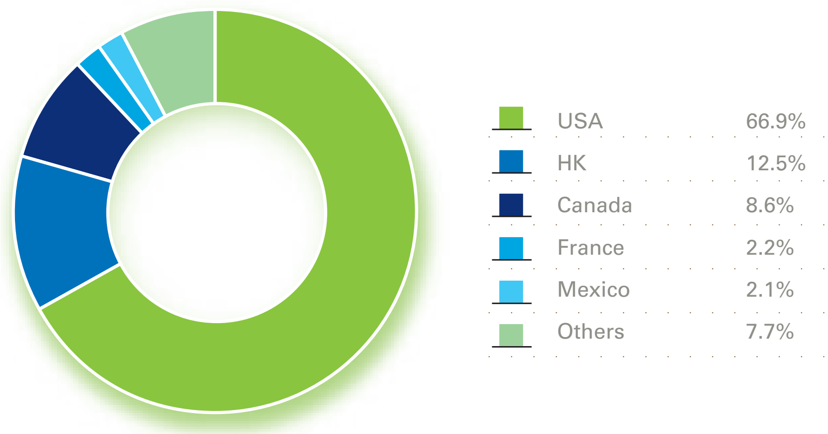
REVENUE



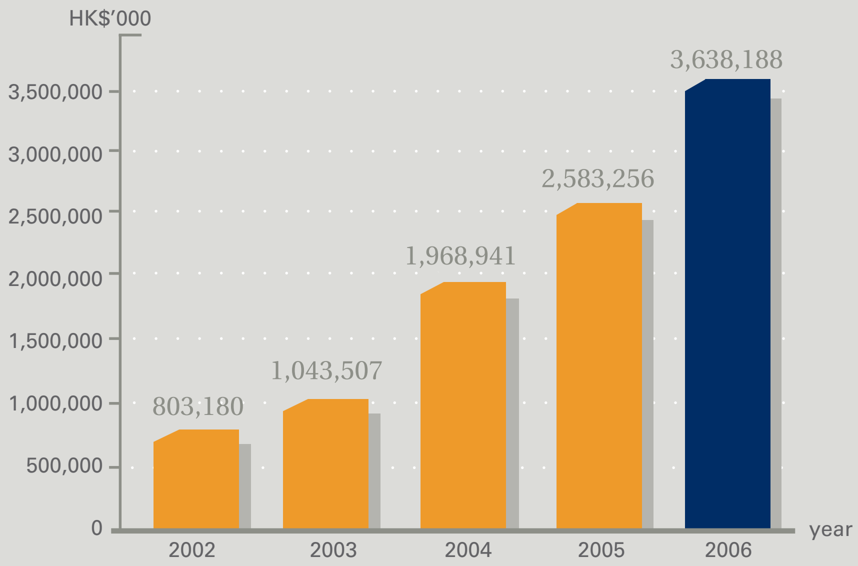
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



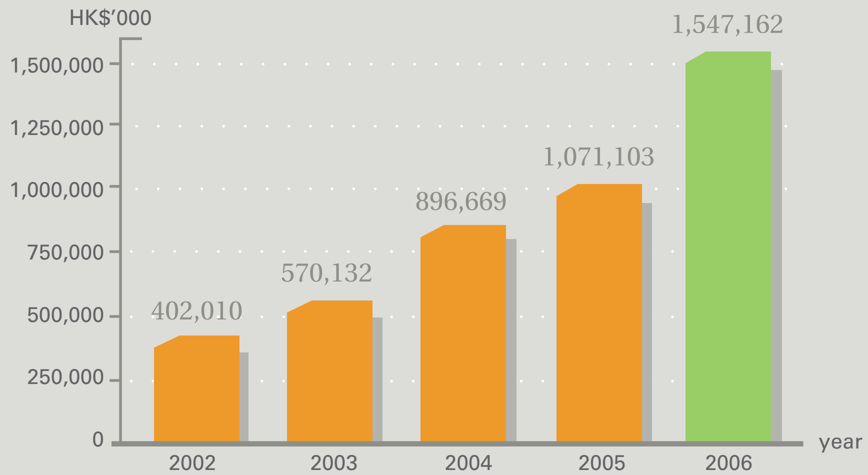
Trading of garment products and provision of quality inspection services



TOTAL ASSETS



EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



Over the past years, we have experienced satisfactory business growth, and the financial year under review continued our trajectory, propelled by growth in each of our business segment.

Chairman's Statement

On behalf of the Board of Directors of Victory City International Holdings Limited (the "Company") and its subsidiary companies (the "Group"), it gives me great pleasure to present to our shareholders the results for the year ended 31 March 2006, being the eighth consecutive year of increase in both revenue and net profit.

DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of HK6.0 cents per share (each a "Share") of HK$0.01 each of the Company in respect of the year ended 31 March 2006 to shareholders whose names appear on the register of members of the Company on Friday, 25 August 2006 and also to recommend the offer to the shareholders the right to elect as an alternative, to receive such final dividend wholly or partly by allotment of new Shares credited as fully paid in lieu of cash (the "Scrip Dividend Scheme"), subject to the approval of the shareholders on the payment of final dividend at the annual general meeting of the Company and the granting by The Stock Exchange of Hong Kong Limited of the listing of, and permission to deal in, the Shares to be issued pursuant thereto.

The Shares to be issued pursuant to the Scrip Dividend Scheme will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of such Shares save that they will not be entitled to the final dividend for the year ended 31 March 2006.

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

BUSINESS REVIEW

Over the past years, we have experienced satisfactory business growth, and the financial year under review continued our trajectory, propelled by growth in each of our business segment. Although the industry faced with various unfavourable conditions including the increase in fuel and finance costs, trade disputes between PRC and United States and European countries and pressure on general expenses exerted by Renminbi appreciation, our results for the past twelve months were encouraging.

The Group's turnover rose steadily by 18% to HK$2.8 billion and net profit for the year attributable to equity holders of the Company surged to HK$250.3 million, signifying an increase of 23% as compared with the previous year. Basic earnings per share increased from 36.1 cents in 2005 to 43.4 cents in 2006.

Production and sales of knitted fabric and dyed yarn remained as the principal operation of the Group and accounted for 64% of the consolidated revenue. Our enhanced monthly production capacity together with the dedicated effort of the marketing teams contributed to the turnover growth. Improvements in production efficiency and product quality through our investment in highly advanced machinery, together with incessant cost controls, contributed to the profit growth. Gross profit margin for the textile segment increased from 22.6% in 2005 to 24.4% in 2006. It is envisaged that the growth in both revenue and profit will be sustained in the coming years.

The garment segment continued to demonstrate satisfactory performance during the year under review by achieving a 44% growth in revenue to HK$1.0 billion, accounted for 36% of the consolidated revenue. Despite the trade disputes and uncertainties arising from the abolition of garment quotas in 2005, the diversified global sourcing base of our garment segment has been well-prepared for these challenges and opportunities and has also successfully diversified our clientele base as well as product ranges. As a forward integrated expansion and recognising the performance of certain customers and brand names to outsource production to companies with their own manufacturing facilities, our garment manufacturing facilities were established in Jordan, PRC and Indonesia during the year. The Group is well-positioned to capitalise on the core strength of multi-location production capabilities with flexible and effective production plannings. We are confident that this new garment manufacturing business will enhance the vertical-integrated competitive advantage of the Group and contribute to the driving force of our corporate development in the coming years.

The past year was full of changes and challenges and the business environment experienced an increase in competition and higher expectation from customers. Our Group's results underscored the strategies that have been taken in the past years and the strong capabilities of our management and operating team in meeting the most demanding expectations in the intensely competitive global environment.

OUTLOOK

In today's challenging and dynamic environment the critically important competencies essential to survival include efficient and effective delivery of quality products and services to the customers. Throughout our years of effort, we have become vertically integrated, from yarn dyeing, knitted fabric manufacturing to garment sourcing, manufacturing and exporting, providing customers with comprehensive and integrated services.

The clearance of textile and garment uncertainties through the signing of trade agreements between PRC and United States and European countries provided steady and predictable growth for the export of Chinese textile products. It is anticipated that PRC will emerge as the largest exporter of textile products. In addition, the economic growth in PRC together with improvement in living standards of residents boost more purchasing demand for garment apparels. Notably, orders from PRC branded customers have been increasing substantially throughout the year and we are well-positioned to increase our domestic market share in PRC.

To cope with both the export and domestic growing demand of our quality fabric, our monthly production capacity of knitted fabric will be further enhanced from 12 million pounds to around 15 million pounds by the end of July 2006. Together with our low cost structure, superior product quality, streamlined manufacturing process and long-term relationships with customers, we believe we are well-equipped to strengthen our position as one of the leading manufacturers in the textile and garment industry, providing comprehensive services to both international and PRC domestic customers.

Our strategic approach and investments have successfully created steady earnings growth in recent years. While the year ahead will be a challenging one, we believe that with our solid foundation and committed focus of management team, the Group is well-prepared to enhance its competitiveness and to meet the new challenges ahead. We intend to capitalise on all strategic opportunities to maintain our uninterrupted record of growth and bring the most satisfactory returns to our shareholders.

APPRECIATION

Finally, on behalf of the Board, I would like to thank our management and staff whose dedication and hard work have allowed us to fully achieve our goals. I would like to express my sincere thanks and gratitude to our customers, suppliers, bankers, business partners and shareholders for their constant and continuous support.

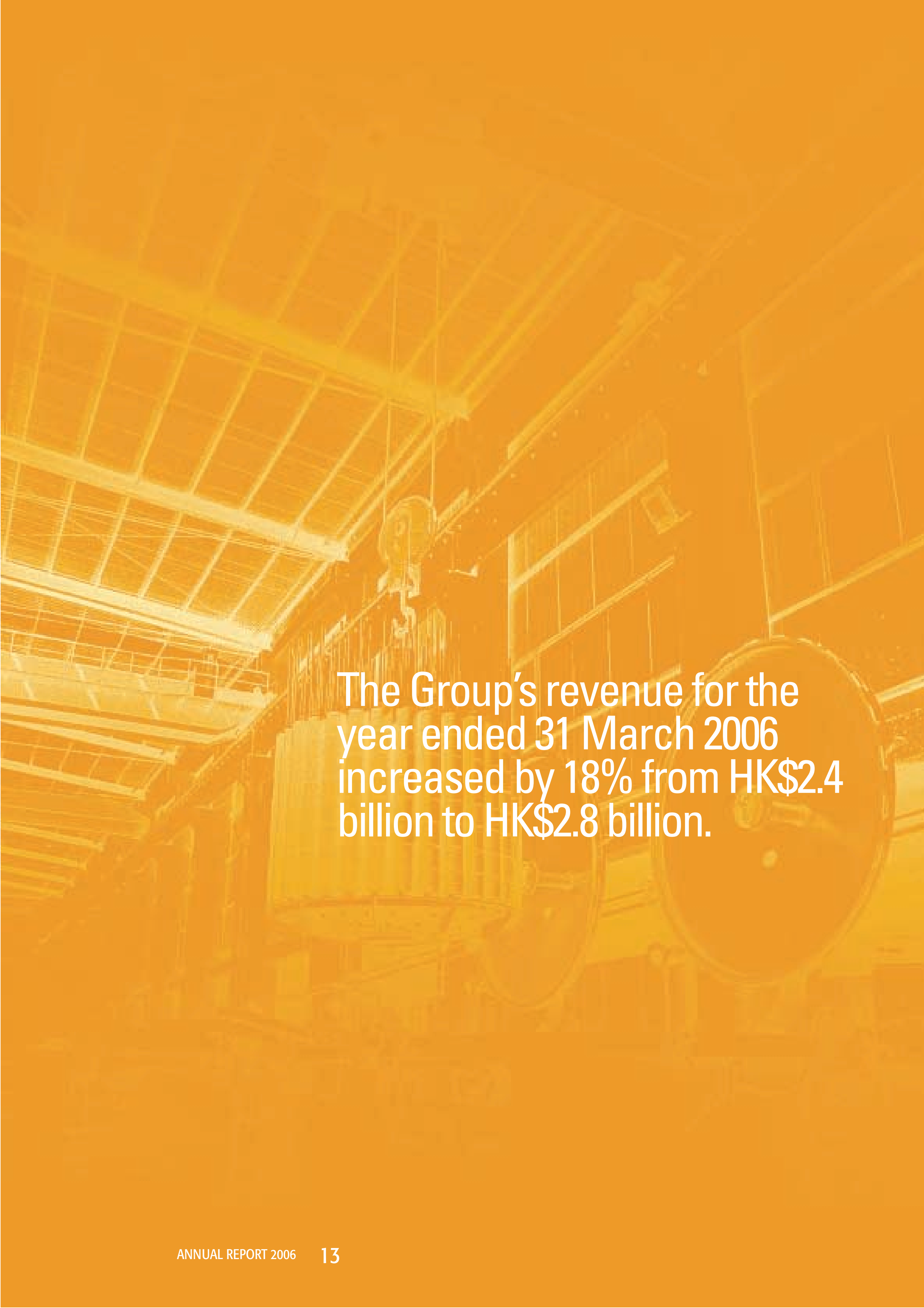
In addition, I would like to express my heartfelt thanks to Mr. Lau Chung Kwan, who, due to personal reasons, resigned as our independent non-executive director on 31 March 2006. I thank him for his efforts and contributions to the Group throughout his directorship and wish him well in the days ahead.

Li Ming Hung

Chairman

Hong Kong

12 July 2006



The Group's revenue for the year ended 31 March 2006 increased by 18% from HK$2.4 billion to HK$2.8 billion.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group's revenue for the year ended 31 March 2006 increased by 18% from HK$2.4 billion to HK$2.8 billion. Revenue of production and sale of knitted fabric and dyed yarn increased by 7% to HK$1.8 billion, representing 64% of the consolidated revenue whereas revenue of garment sourcing, manufacturing and exporting business surged to HK1.0 billion, signifying a 44% growth as compared with last year and representing 36% of the consolidated revenue.

During the year, revenue in terms of output quantities of knitted fabric and dyed yarn did increase by approximately 15% as compared with the previous year whereas revenue in terms of monetary value recorded only a 7% increase due to the downward adjustment of product prices. Nevertheless, our efforts in exploring overseas markets as well as diversifying into the PRC domestic market substantiated the revenue growth momentum of the Group.

Gross profit margin for production and sale of knitted fabric and dyed yarn increased from 22.6% to 24.4% in the year under review. Cotton price remained reasonably steady throughout the year. Enhancement of production capability achieved economies of scale together with improvements in manufacturing efficiency and quality contributed to the margin growth.

Revenue of the garment sourcing, manufacturing and exporting business increased by 44%, mainly due to contribution from our new garment manufacturing business. Revenue of this new segment was approximately HK$175 million, with new factories established in Jordan, Xinhui and Indonesia. By exploring new customers and markets, as well as diversifying product ranges, revenue of the garment sourcing and exporting business increased by 18% as compared with the previous year. Severe market competition continued to put pressure to the product prices. Nevertheless, stringent cost controls as well as high level of flexibility achieved from strong diversified outsourcing production bases enabled the margin of this segment to keep at similar level as last year.

Other income increased from HK$11.5 million in 2005 to HK$31.1 million in 2006. This was mainly contributed by the change in fair value of investment properties of HK$17.5 million in accordance to the adoption of Hong Kong Accounting Standard 40 in the year under review.

Finance costs were doubled from HK$18.0 million in 2005 to HK$36.1 million in 2006, mainly due to increase in global interest rate. The Group has tried its best endeavour in obtaining favourable banking facilities and arranging interest rate swap facilities with its bankers so as to keep the adverse impact brought by the increase in interest rate to minimal.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the Group had total assets of HK$3,638,188,000 (2005: HK$2,583,256,000) which were financed by current liabilities of HK$1,425,159,000 (2005: HK$780,945,000), long term liabilities of HK$610,342,000 (2005: HK$693,638,000) and shareholders' equity of HK$1,547,162,000 (2005: HK$1,071,103,000). The current ratio was approximately 1.5 (2005: 1.9) and the gearing ratio, being the ratio of total borrowings (net of bank balances and cash) to shareholders funds was 57% (2005: 76%). All of the Group's borrowings were at floating rate basis.

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

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollar, Chinese Renminbi and US dollar. Inasmuch as the Hong Kong dollar is pegged to the US dollar, and that there has been minimal fluctuation in exchange rate between Hong Kong dollar and Chinese Renminbi, the Group's exposure to currency exchange risk was minimal.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK$449 million in fixed assets, of which 23% was used for purchase of plant and machinery and 74% for acquisition of property and construction of new factory plants, workers' dormitory, water treatment plants and enhancement of the coal-fired facilities.

At 31 March 2006, the Group had capital commitments of approximately HK$75 million in respect of acquisition of property, plant and equipment.

PLACEMENT OF SHARES

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

CHARGES ON ASSETS

At 31 March 2006, investment properties and certain property, equipment, plant and machinery of the Group with net book value of approximately HK$112 million were pledged to banks to secure banking facilities granted.

EMPLOYEE INFORMATION

As at 31 March 2006, total number of employees of the Group were approximately 290 in Hong Kong and Macau (2005: 220), approximately 10 (2005: 10) in the US and Canada, approximately 1,200 in Jordan (2005: nil), approximately 700 in Indonesia (2005: nil) and approximately 5,300 in the People's Republic of China (2005: 4,800). Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on individuals' merits as well as the results of the Group. Other benefits to the staff include a provident fund scheme as well as medical insurance.

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for 23.9% of the total revenue for the year and sales to the largest customer included therein accounted for 13.8%.

Purchase from the five largest suppliers accounted for 25.3% of the total purchases for the year and purchase from the largest supplier included therein accounted for 6.7%.

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

Profiles of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Li Ming Hung, aged 55, is the Chairman of the Company and a co-founder of the Group. He has over 29 years experience in the textile industry and is responsible for the overall strategic planning of the corporate as well as business development of the Group.

Mr. Chen Tien Tui, aged 57, is the Managing Director, the Chief Executive Officer of the Company and a co-founder of the Group. He has over 27 years experience in the textile industry and is responsible for the day-to-day operation in respect of production, sales and marketing of the Group.

Mr. So Kam Wah, aged 46, is the head of manufacturing operation of Xinhui Victory City Co., Ltd. He has over 23 years experience in the textile industry and is responsible for the overall manufacturing operation of the Xinhui factory. Mr. So joined the Group in 1983.

Mr. Lee Yuen Chiu, Andy, aged 41, is the Executive Director of the Group. He has over 20 years experience in the textile industry and is responsible for the overall management of the sales and production of the Group. Mr. Lee joined the Group in 1997.

Mr. Choi Lin Hung, aged 44, is the Executive Director of the Group. He holds a Master in Business Administration and is responsible for the strategic planning and corporate development of the Group. Prior to joining the Group in 2001, Mr. Choi has over 9 years banking experience and 6 years management experience in garment and textile industry.

Independent Non-Executive Directors

Mr. Kan Ka Hon, aged 55, graduated from The University of Hong Kong and is a qualified accountant. He is the Executive Director and Company Secretary of each of Chevalier International Holdings Limited and Chevalier iTech Holdings Limited which are also companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Kan has extensive experience in corporate finance, treasury and accounting and has over 26 years experience at management level in listed companies. He is also a Non-Executive Director of Asia Alliance Holdings Limited, which is a company listed on the Stock Exchange.

Mr. Phaisalakani Vichai (Andy Hung), aged 58, is the Executive Director and Chief Financial Officer of Willas-Array Electronics (Holdings) Limited. He graduated from Minnesota State University and is a chartered accountant in Canada. He has worked for an international accounting firm for 11 years and has extensive experience in finance and corporate management with major electronics and garments corporations.

Mr. Kwok Sze Chi (appointed on 31 March 2006), aged 51, currently holds a registered investment adviser licence and is a director of The Institute of Securities Dealers and the deputy chairman of The Hong Kong Institute of Financial Analysts and Professional Commentators. Having served the securities industry for 30 years, Mr Kwok has vast experience in securities and futures investment and operation. Since 1985, Mr Kwok has been invited to appear on television and radio programmes to explain market trends and analyze stock market developments. He also provides professional investment analyses in newspapers and investment websites.

Mr. Lau Chung Kwan (resigned on 31 March 2006), aged 48, obtained his Bachelor and Master in Business Administration from University of Oregon and University of Texas at Arlington in the United States of America respectively. He is a member of the Hong Kong Securities Institute. He is the Chief Investment Officer of CASH Asset Management Limited, a subsidiary of CASH Financial Services Group Limited, the shares of which are listed on the Stock Exchange and has over 11 years of extensive experience in the financial industry.

SENIOR MANAGEMENT

Mr. Lee Chung Shing, aged 39, is the Financial Controller and Company Secretary of the Group. He is an associate member of the Chartered Institute of Management Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee joined the Group in 1998 and has over 17 years experience in the accounting and finance sector including an international accounting firm and a company listed on the Stock Exchange.

Mr. Ng Tsze Lun, aged 51, is the Marketing Director of Ford Glory International Limited. Mr. Ng joined the Group in 2001 and has over 30 years of experience in garment manufacturing and sourcing areas, he is responsible for oversee the daily operation and marketing of garment segment.

Mr. Wong Bing Koi, aged 51, is the general manager of Xinhui Victory City Co., Ltd. He has over 31 years experience in the textile industry and is responsible for the overall management of the Xinhui factory. Mr. Wong joined the Group in 1992.

Mr. Leung Sai Yau, aged 47, is the Group Supply Chain Manager. Mr. Leung joined the Group in 2004 and has over 25 years of experience in logistics area, he is responsible for oversee the overall management of MIS & logistics of the Group.

Mr. Wong Kam Hoi, aged 51, is the head of sales and marketing of the Group. He has over 23 years experience in the textile industry and is responsible for the sales and marketing function of the Group. Mr. Wong joined the Group in 1986.

Mr. Sy Wing Shuen, aged 52, is the sales manager of the Group. He have over 31 years experience in the textile industry and is responsible for the sales and marketing function of the Group. Mr. Sy joined the Group in 1999.

Mr. Lau Fat Chuen, aged 50, is the General Manager of Xinhui V-Apparel Co., Ltd. Mr. Lau joined the Group in 2005 and has over 30 years of experience in garment manufacturing area, he is responsible for oversee the overall management of China garment factory.

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the production and sale of knitted fabric and dyed yarn and provision of related subcontracting services, trading of garment products and provision of quality inspection services.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 41. The directors recommend the payment of a final dividend of HK6 cents per share, in cash form with a scrip dividend option to the shareholders whose names appear on the register of members on 25 August 2006 amounting to approximately HK$38,616,000. Details of the dividends for the year are set out in note 12 to the financial statements.

SHARE CAPITAL

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

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a total cost of approximately HK$448,919,000 for the expansion of its business. Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 16 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 March 2006 represented by its accumulated profits, dividend reserve and contributed surplus, totalling approximately HK$234,946,000.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. Li Ming Hung *(Chairman)*

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

Mr. So Kam Wah

Mr. Lee Yuen Chiu, Andy

Mr. Choi Lin Hung

Independent non-executive directors:

Mr. Kan Ka Hon	
Mr. Phaisalakani Vichai (Andy Hung)	
Mr. Kwok Sze Chi	*(appointed on 31 March 2006)*
Mr. Lau Chung Kwan	*(resigned on 31 March 2006)*

In accordance with Clause 87(1) of the Company's Bye-laws, Mr. Li Ming Hung, Mr. Chen Tien Tui and Mr. Choi Lin Hung will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. All other directors continue in office.

In addition, pursuant to Clause 86(2) of the Company's Bye-laws, Mr Kwok Sze Chi's term of appointment as a director will end at the conclusion of the forthcoming annual general meeting, and Mr Kwok, being eligible, offers himself for re-election at the forthcoming annual general meeting.

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

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

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

Details of the directors' interests in contract and connected transactions for the year are set out in note 34 to the financial statements.

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

a. have received approval of the Board of Directors;

b. have been entered into in accordance with the pricing policies of the Group with reference to similar transactions with independent third parties;

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

d. were below the relevant cap amounts as set out in the announcements of the Company dated 29 June 2005 and 9 September 2005.

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

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

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

b. on normal commercial terms; and

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

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, the interests and short positions of the directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares *(Note 1)*	Interest in underlying shares of share options *(Note 1)*	% of the relevant class of issued share capital of the Company/ associated corporation
Li Ming Hung	The Company	Founder of a trust	94,462,000 ordinary shares of HK$0.01 each of the Company ("Shares") (L) *(Note 2)*	–	14.7%
	The Company	Beneficial owner	8,712,000 Shares (L)	–	1.4%
	The Company	Beneficial owner	–	1,500,000 Shares (L) *(Note 4)*	0.2%
	Victory City Company Limited *(Note 15)*	Beneficial owner	4,000,000 non-voting deferred shares of HK$1.00 each (L)	–	50%
	Victory City Overseas Limited *(Note 15)*	Beneficial owner	1,300 redeemable non-voting preference shares of US$1.00 each (L)	–	39.4%
Chen Tien Tui	The Company	Founder of a trust	94,462,000 Shares (L) *(Note 3)*	–	14.7%
	The Company	Beneficial owner	9,330,000 Shares (L)	–	1.4%
	The Company	Beneficial owner	–	1,500,000 Shares (L) *(Note 4)*	0.2%
	Victory City Company Limited *(Note 15)*	Beneficial owner	4,000,000 non-voting deferred shares of HK$1.00 each (L)	–	50%
	Victory City Overseas Limited *(Note 15)*	Beneficial owner	1,300 redeemable non-voting preference shares of US$1.00 each (L)	–	39.4%

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares *(Note 1)*	Interest in underlying shares of share options *(Note 1)*	% of the relevant class of issued share capital of the Company/ associated corporation
Choi Lin Hung	The Company	Beneficial owner	2,552,000 Shares (L)	–	0.4%
	The Company	Beneficial owner	–	9,000,000 Shares (L) *(Note 5)*	1.4%
	Victory City Overseas Limited *(Note 15)*	Beneficial owner	700 redeemable non-voting preference shares of US$1.00 each (L)	–	21.2%
	Ford Glory Holdings Limited *(Note 15)*	Interest of controlled corporation	49 shares of US$1.00 each (L) *(Note 6)*	–	100%
	CSG Apparel Inc. *(Note 15)*	Interest of controlled corporation	One common stock of CAD1.00 (L) *(Note 7)*	–	100%
	Ford Glory International Limited *(Note 15)*	Interest of controlled corporation	5,000,000 ordinary shares of HK$1.00 each (L) *(Note 13)*	–	100%
	Glory Time Limited *(Note 15)*	Interest of controlled corporation	70 ordinary shares of HK$1.00 each (L) *(Note 10)*	–	70%
	Mayer Apparel Limited *(Note 15)*	Interest of controlled corporation	51 ordinary shares of HK$1.00 each (L) *(Note 11)*	–	51%
	PT Victory Apparel Semarang *(Note 15)*	Interest of controlled corporation	300,000 ordinary shares of US$1.00 each (L) *(Note 9)*	–	100%
	Silver Success Limited *(Note 15)*	Interest of controlled corporation	90 ordinary shares of HK$1.00 each (L) *(Note 10)*	–	90%
	Surefaith Limited *(Note 15)*	Interest of controlled corporation	10 ordinary shares of US$1.00 each (L) *(Note 13)*	–	100%
	Top Star Limited *(Note 15)*	Interest of controlled corporation	2 ordinary shares of HK$1.00 each (L) *(Note 13)*	–	100%
	Top Value Inc. *(Note 15)*	Interest of controlled corporation	200 common shares of no par value (L) *(Note 12)*	–	100%
	Value Plus (Macao Commercial Offshore) Limited *(Note 15)*	Interest of controlled corporation	Quota capital of MOP100,000 (L) *(Note 14)*	–	100%
	Victory Apparel Jordan Manufacturing Ltd. *(Note 15)*	Interest of controlled corporation	50,000 ordinary shares of JD$1.00 each (L) *(Note 8)*	–	100%

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares *(Note 1)*	Interest in underlying shares of share options *(Note 1)*	% of the relevant class of issued share capital of the Company/ associated corporation
	Wealth Choice Limited *(Note 15)*	Interest of controlled corporation	10 ordinary shares of US$1.00 each (L) *(Note 13)*	-	100%
	福之源貿易(上海)有限公司 *(Note 15)*	Interest of controlled corporation	Registered capital of RMB1,000,000 (L) *(Note 7)*	-	100%
Lee Yuen Chiu, Andy	The Company	Beneficial owner	-	9,000,000 Shares (L) *(Note 5)*	1.4%
So Kam Wah	The Company	Beneficial owner	-	9,000,000 Shares (L) *(Note 5)*	1.4%
Phaisalakani Vichai	The Company	Beneficial owner	200,000 Shares (L)	-	0.03%

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15. These companies are subsidiaries of the Company.

Save as disclosed above in this report, as at 31 March 2006, none of the directors and chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (with the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

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

As at 31 March 2006, according to the register kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiring by the directors, the following persons (other than directors and chief executive of the Company) had an interest or short position in the Shares and/or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of person	Number of Shares *(Note 1)*	Capacity	Approximate percentage of interest
Pearl Garden Pacific Limited	94,462,000 (L)	Beneficial owner *(Note 2)*	14.68%
Cornice Worldwide Limited	94,462,000 (L)	Interest of controlled corporation *(Note 2)*	14.68%
Madian Star Limited	94,462,000 (L)	Beneficial owner *(Note 3)*	14.68%
Yonice Limited	94,462,000 (L)	Interest of controlled corporation *(Note 3)*	14.68%
Trustcorp Limited	188,924,000 (L)	Trustee *(Notes 2, 3 & 4)*	29.35%
Newcorp Ltd.	188,924,000 (L)	Interest of controlled corporation *(Notes 2, 3 & 4)*	29.35%
Newcorp Holdings Ltd.	188,924,000 (L)	Interest of controlled corporation *(Notes 2, 3 & 4)*	29.35%
David Henry Christopher Hill	188,924,000 (L)	Interest of controlled corporation *(Notes 2, 3 & 4)*	29.35%
David William Roberts	188,924,000 (L)	Interest of controlled corporation *(Notes 2, 3 & 4)*	29.35%
Rebecca Ann Hill	188,924,000 (L)	Interest of spouse *(Notes 2, 3, 4 & 5)*	29.35%
Ho Yuen Mui, Shirley	104,674,000 (L)	Interest of spouse *(Note 6)*	16.26%
Or Kwai Ying	105,292,000 (L)	Interest of spouse *(Note 7)*	16.36%
Morgan Stanley	53,161,026 (L) 8,016,000 (S)	Interest of controlled corporations *(Note 8)*	8.26% 1.25%

Notes:

1. The letter "L" represents the person's interests in the Share and underlying Shares, and the letter "S" represents the person's short position in the Share and underlying Shares.

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

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

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

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

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

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

8. Morgan Stanley Investment Management Company directly held 44,945,026 Shares and is wholly owned by Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd. which is in turn wholly owned by Morgan Stanley Asia Regional (Holdings) III LLC. Morgan Stanley Asia Regional (Holdings) III LLC is wholly owned by Morgan Stanley Asia Pacific (Holdings) Limited which is 90% owned by Morgan Stanley International Holdings Inc.; whereas, Morgan Stanley International Holdings Inc. is 80% owned by Morgan Stanley International Incorporated which is in turn 90% owned by Morgan Stanley Domestic Capital, Inc.. Morgan Stanley Domestic Capital, Inc. is wholly owned by Morgan Stanley Capital Management, LLC which is in turn wholly owned by Morgan Stanley.

   Morgan Stanley Asset & Investment Trust Management Co. Limited held 4,008,000 Shares and is wholly owned by Morgan Stanley International Incorporated.

   Morgan Stanley & Co International Limited held 114,000 Shares and had a short position in 3,922,000 Shares. It is wholly owned by Morgan Stanley UK Group which is in turn wholly owned by Morgan Stanley Group (Europe). Morgan Stanley Group (Europe) is wholly owned by Morgan Stanley International Limited which is wholly owned by Morgan Stanley International Holdings Inc.

MSDW Equity Finance Services I (Cayman) Limited held 4,094,000 Shares and had a short position in 4,094,000 Shares. It is wholly owned by MSDW Offshore Equity Services Inc which is in turn wholly owned by Morgan Stanley.

Save as disclosed above, so far as is known to the directors, as at 31 March 2006, there was no person (other than a director or chief executive of the Company) who had an interest or short position in the Shares and/or underlying Shares in the Company (including interest in options, if any) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

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

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

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

EMOLUMENT POLICY

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

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

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

COMPETING BUSINESS INTERESTS OF DIRECTORS

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

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, there is no contract of significance to the Group subsisting as at 31 March 2006 in which a director of any member of the Group is or was materially interested, either directly or indirectly.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board

Li Ming Hung
Chairman
Hong Kong
12 July 2006

CORPORATE GOVERNANCE PRACTICES

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

Throughout the year, the Company had complied with the Code Provisions, save for the deviations from Code Provisions A.2.1, B.1.1 and C.3.3 of the Code.

According to Code Provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Before 23 September 2005, the Board had not appointed any individual to the post of chief executive officer. The responsibilities of the chief executive officer had been performed by Mr. Chen Tien Tui. On 23 September 2005, the Board formally appointed Mr. Chen Tien Tui as the chief executive officer of the Company, while Mr. Li Ming Hung remained as the chairman of the Company, and approved the terms of division of responsibilities between the chairman and the chief executive officer.

According to Code Provision B.1.1 of the Code, issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority members of the remuneration committee should be independent non-executive directors. On 23 September 2005, the Board established the remuneration committee ("**Remuneration Committee**") of the Company with specific written terms of reference containing the specific terms set out in Code Provision B.1.3 of the Code. The Remuneration Committee initially comprised the three independent non-executive directors (namely, Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr. Lau Chung Kwan) and two executive directors (namely, Mr. Li Ming Hung and Mr. Chen Tien Tui). Mr. Lau Chung Kwan resigned as an independent non-executive director on 31 March 2006 and ceased to be a member of the remuneration committee on the same day. To fill the vacancy on the Board and the Remuneration Committee arising from the resignation of Mr. Lau Chung Kwan, Mr. Kwok Sze Chi was appointed an independent non-executive director and a member of the Remuneration Committee on 31 March 2006.

Code Provision C.3.3 of the Code sets out certain duties of the audit committee which should be included in the terms of reference of the audit committee. To align the terms of reference of the audit committee ("**Audit Committee**") of the Company with Code Provision C.3.3 of the Code, on 23 September 2005 the Board adopted new terms of reference of the Audit Committee which included the duties set out in Code Provision C.3.3 of the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors and senior management of the Group on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules ("**Model Code**"). Having made specific enquiry of all directors and senior management of the Group, all directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by directors and senior management throughout the year ended 31 March 2006.

BOARD OF DIRECTORS

The Board is currently composed of five executive directors comprising Mr. Li Ming Hung as the chairman, Mr. Chen Tien Tui as the chief executive officer of the Company, Mr. So Kam Wah, Mr. Lee Yuen Chiu, Andy and Mr. Choi Lin Hung; and three independent non-executive directors comprising Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr Kwok Sze Chi. The biographical details of the directors are set out on pages 18 to 19 of the annual report of the Company for the year ended 31 March 2006. All directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws. Each independent non-executive director is appointed for a term of two years.

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

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

(2) reviewed and approved corporate strategies of the Group for the financial year ending 31 March 2007; and

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

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

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

	Attendance
Executive directors	
Mr. Li Ming Hung *(Chairman)*	2/4
Mr. Chen Tien Tui *(Chief Executive Officer)*	4/4
Mr. So Kam Wah	2/4
Mr. Lee Yuen Chiu, Andy	4/4
Mr. Choi Lin Hung	4/4
Independent non-executive directors	
Mr. Kan Ka Hon	4/4
Mr. Phaisalakani Vichai	3/4
Mr. Kwok Sze Chi *(appointed on 31 March 2006) (Note)*	N/A
Mr. Lau Chung Kwan *(resigned on 31 March 2006)*	4/4

Note: Mr Kwok was only appointed as an independent non-executive director on the end date of the year, and therefore he did not participate in any regular meetings.

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

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

NOMINATION OF DIRECTORS

The Board has not set up a nomination committee. The nomination of new directors has been delegated to the Chairman and other executive directors. They review regularly the need to appoint additional directors with appropriate professional knowledge and industry experience. The Board will then consider the appointment of the candidates nominated by them as directors of the Company. During the year, Mr. Kowk Sze Chi had been nominated and appointed as independent non-executive director of the Company.

REMUNERATION COMMITTEE

The Board has set up the Remuneration Committee and has adopted a new set of terms of reference of the Audit Committee which were prepared in accordance with the Code Provisions.

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

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

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

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

AUDITORS' REMUNERATION

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

Audit services of approximately HK$1,567,000 for the Group;

Non-audit services of approximately HK$1,484,000 including:

- review of interim results
- taxation services for the Group
- agreed upon procedures on the Group's continuing connected transaction
- agreed upon procedures on the Group's annual result announcement

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive directors, namely Mr. Kan Ka Hon (Chairman), Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi. The original terms of reference of the Audit Committee were prepared and adopted with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants. Pursuant to a resolution passed by Board at its meeting held on 23 September 2005, a new set of terms of reference of the Audit Committee which were prepared in accordance with and with reference to the Code Provisions were adopted in replacement of the original terms of reference and the new terms of reference came into effect on 23 September 2005.

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

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

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

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

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

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

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

	Attendance
Independent non-executive Directors	
Mr. Kan Ka Hon	2/2
Mr. Phaisalakani Vichai	1/2
Mr. Kwok Sze Chi *(appointed on 31 March 2006) (Note)*	N/A
Mr. Lau Chung Kwan *(resigned on 31 March 2006)*	2/2

Note: Mr Kwok was only appointed as an independent non-executive director on the end date of the year, and therefore he did not participate in any such meetings.

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

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 31 March 2006, the directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The responsibilities of the external auditors are set out in the Auditors' Report to the shareholders of the Company on pages 39 to 40 of the annual report of the Company.

INTERNAL CONTROL

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

Deloitte.
德勤

TO THE SHAREHOLDERS OF VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Victory City International Holdings Limited and its subsidiaries from pages 41 to 92 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
12 July 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Revenue	7 & 8	2,833,111	2,403,384
Cost of sales		(2,254,661)	(1,935,110)
Gross profit		578,450	468,274
Other income		31,080	11,507
Distribution costs		(92,431)	(75,193)
Administrative expenses		(179,305)	(150,290)
Amortisation of goodwill	17	–	(646)
Finance costs	9	(36,135)	(17,983)
Profit before taxation		301,659	235,669
Income tax expense	10	(27,941)	(15,657)
Profit for the year	11	273,718	220,012
Attributable to:			
Equity holders of the Company		250,269	202,655
Minority shareholders		23,449	17,357
		273,718	220,012
Distributions	12	75,947	62,132
Earnings per share	13		
Basic		43.4 cents	36.1 cents
Diluted		43.3 cents	35.7 cents

CONSOLIDATED BALANCE SHEET

At 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	*14*	1,405,800	997,719
Prepaid lease payments	*15*	22,654	23,889
Investment properties	*16*	92,870	45,930
Goodwill	*17*	6,185	644
Deposits paid for acquisition of property, plant and equipment		3,398	–
		1,530,907	1,068,182
Current assets			
Inventories	*18*	860,729	712,894
Trade receivables	*19*	706,632	454,070
Deposits, prepayments and other receivables	*20*	167,914	121,484
Prepaid lease payments	*15*	783	793
Derivative financial instruments	*24*	461	–
Bank balances and cash	*20*	370,762	225,833
		2,107,281	1,515,074
Current liabilities			
Trade payables	*21*	474,964	352,647
Other payables	*20*	71,151	52,596
Dividend payable		97	72
Taxation payable		35,898	18,580
Obligations under finance leases – amount due within one year	*22*	2,618	5,265
Bank borrowings – amount due within one year	*23*	837,287	351,785
Derivative financial instruments	*24*	3,144	–
		1,425,159	780,945
Net current assets		682,122	734,129
		2,213,029	1,802,311
Capital and reserves			
Share capital	*25*	6,436	5,673
Reserves		1,540,726	1,065,430
Equity attributable to equity holders of the Company		1,547,162	1,071,103
Minority interests		55,525	37,570
Total equity		1,602,687	1,108,673
Non-current liabilities			
Obligations under finance leases – amount due after one year	*22*	–	2,601
Bank borrowings – amount due after one year	*23*	601,191	687,283
Deferred tax liabilities	*28*	9,151	3,754
		610,342	693,638
		2,213,029	1,802,311

The financial statements on pages 41 to 92 were approved and authorised for issue by the Board of Directors on 12 July 2006 and are signed on its behalf by:

Li Ming Hung
Director

Chen Tien Tui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2006

	Attributable to equity holders of the Company										
	Share capital HK$'000 *(Note 25)*	Share premium HK$'000	Capital reserve HK$'000 *(Note 26)*	Investment property revaluation reserve HK$'000	Translation reserve HK$'000	Goodwill reserve HK$'000	Dividend reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 April 2004 as originally stated	5,582	445,381	76,229	–	2,826	(1,452)	25,120	342,983	896,669	24,378	921,047
Effects of changes in accounting policies *(Note 3)*	–	–	–	–	–	–	–	(1,890)	(1,890)	–	(1,890)
At 1 April 2004 as restated	5,582	445,381	76,229	–	2,826	(1,452)	25,120	341,093	894,779	24,378	919,157
Exchange difference on translation of operations outside Hong Kong	–	–	–	–	30	–	–	–	30	–	30
Surplus on revaluation of investment properties	–	–	–	2,657	–	–	–	–	2,657	3,675	6,332
Net income recognised directly in equity	–	–	–	2,657	30	–	–	–	2,687	3,675	6,362
Profit for the year (restated)	–	–	–	–	–	–	–	202,655	202,655	17,357	220,012
Total recognised income and expense for the year	–	–	–	2,657	30	–	–	202,655	205,342	21,032	226,374
Issue of shares under scrip dividend scheme for 2004 final and 2005 interim dividend	91	26,943	–	–	–	–	(27,034)	–	–	–	–
Interim dividend proposed	–	–	–	–	–	–	30,932	(30,932)	–	–	–
Final dividend proposed	–	–	–	–	–	–	31,200	(31,200)	–	–	–
Dividend declared	–	–	–	–	–	–	(29,018)	–	(29,018)	–	(29,018)
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(7,840)	(7,840)
At 31 March 2005 as restated	5,673	472,324	76,229	2,657	2,856	(1,452)	31,200	481,616	1,071,103	37,570	1,108,673
Effect of changes in accounting policies *(note 3)*	–	–	–	(2,657)	–	1,452	–	576	(629)	–	(629)
As 1 April 2005 as restated	5,673	472,324	76,229	–	2,856	–	31,200	482,192	1,070,474	37,570	1,108,044
Exchange difference on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	90,675	–	–	–	90,675	–	90,675
Profit for the year	–	–	–	–	–	–	–	250,269	250,269	23,449	273,718
Total recognised income and expense for the year	–	–	–	–	90,675	–	–	250,269	340,944	23,449	364,393
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	4,306	4,306
Issue of shares under scrip dividend scheme for 2005 final and 2006 interim dividend	163	33,780	–	–	–	–	(33,943)	–	–	–	–
Placing of new shares	600	175,200	–	–	–	–	–	–	175,800	–	175,800
Transaction costs attributable to issue of new shares	–	(5,468)	–	–	–	–	–	–	(5,468)	–	(5,468)
Interim dividend proposed	–	–	–	–	–	–	37,331	(37,331)	–	–	–
Final dividend proposed *(note 12)*	–	–	–	–	–	–	38,616	(38,616)	–	–	–
Dividend declared	–	–	–	–	–	–	(34,588)	–	(34,588)	–	(34,588)
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(9,800)	(9,800)
At 31 March 2006	6,436	675,836	76,229	–	93,531	–	38,616	656,514	1,547,162	55,525	1,602,687

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (restated)
OPERATING ACTIVITIES			
Profit before taxation		301,659	235,669
Adjustments for:			
Amortisation of goodwill		–	646
Release of prepaid lease payments		793	793
Changes in fair value of derivative financial instruments		2,054	–
Changes in fair value of investment properties		(17,539)	–
Surplus on revaluation of investment properties		–	(1,186)
Gain on disposal of property, plant and equipment		(1,539)	(194)
Depreciation of property, plant and equipment		98,079	63,503
Interest income		(1,940)	(866)
Interest on bank borrowings		35,884	17,775
Interest on obligations under finance leases		251	208
Operating cash flows before working capital changes		417,702	316,348
Increase in inventories		(98,711)	(140,812)
Increase in trade receivables		(244,155)	(61,113)
Increase in deposits, prepayments and other receivables		(45,949)	(31,767)
Increase in trade payables		107,184	86,209
Increase in other payables		3,604	4,762
Cash generated from operations		139,675	173,627
Interest paid on bank borrowings		(42,850)	(19,649)
Interest paid on obligations under finance leases		(251)	(208)
Hong Kong Profits Tax paid		(3,004)	(6,757)
Overseas tax paid		(2,246)	(1,205)
NET CASH FROM OPERATING ACTIVITIES		91,324	145,808
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(441,953)	(446,739)
Purchase of investment properties		(29,951)	(26,062)
Deposit paid for acquisition of property, plant and equipment		(3,398)	–
Proceeds from disposal of property, plant and equipment		3,842	384
Interest received		1,940	866
Acquisition of a subsidiary	29	1,208	–
NET CASH USED IN INVESTING ACTIVITIES		(468,312)	(471,551)
FINANCING ACTIVITIES			
New bank loans raised		303,327	760,896
Net amount of import loans and trust receipts loans raised (repaid)		280,915	(90,010)
Gross proceeds from issue of new shares		175,800	–
Repayment of bank loans		(182,616)	(358,200)
Dividend paid to the Company's shareholders		(34,563)	(28,990)
Dividend paid to a minority shareholder		(9,800)	(7,840)
Transaction costs attributable to issue of new shares		(5,467)	–
Repayment of obligations under finance leases		(5,248)	(5,600)
Repayment of mortgage loans		(2,216)	(1,481)
New mortgage loans raised		–	20,000
NET CASH FROM FINANCING ACTIVITIES		520,132	288,775
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		143,144	(36,968)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		225,833	262,801
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		1,785	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		370,762	225,833

1. GENERAL

The Company is incorporated in Bermuda as an exempted company under The Companies Act 1981 of Bermuda (as amended). Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section out in the annual report.

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

The Company is an investment holding company. Its subsidiaries are principally engaged in the production and sale of knitted fabric and dyed yarn and provision of related subcontracting services, trading of garment products and provision of quality inspection services.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("INT(s)") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are presented:

(i) Business Combinations

HKFRS 3 "Business Combinations" is effective for business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any agreement between the period from 1 January 2005 to 31 March 2005. On 1 April 2005, the Group has applied the transitional provisions of HKFRS 3. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 April 2001 was held in reserves, and goodwill arising on acquisitions after 1 April 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of approximately HK$1,452,000 has been transferred to the Group's accumulated profits on 1 April 2005. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 April 2005 eliminated the carrying amount of the related accumulated amortisation of approximately HK$2,584,000 with a corresponding decrease in cost of goodwill (see note 17). The Group has discontinued amortising such goodwill from 1 April 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 April 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2005 have not been restated.

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

(ii) Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group chooses not to apply HKFRS 2 with respect to those share options granted on or before 7 November 2002 and vested before 1 April 2005. As there were no unvested share options at 1 April 2005, there is no financial impact to the Group for the prior and current periods.

(iii) Financial Instruments

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

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. There is no financial impact to the Group for the prior and current periods.

Derivative financial instruments

From 1 April 2005 onwards, all derivative financial instruments that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date. Under HKAS 39, derivative financial instruments are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. Changes in fair values of such derivative financial instruments are recognised in profit or loss for the period in which they arise. Net loss arising from changes in fair value of derivative financial instruments of approximately HK$2,054,000 has been recognised in profit and loss for the year.

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

(iii) Financial Instruments *(Continued)*

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 April 2005. As a result, the Group's bill receivables discounted with full recourse and debts factored with full recourse which were derecognised prior to 1 April 2005 have not been restated. As at 31 March 2006, the Group's bills receivables discounted with full recourse and debts factored with full recourse have not been derecognised. Instead, the related borrowings of approximately HK$191,248,000 as at 31 March 2006 have been recognised on the balance sheet date. This change in accounting policy has had no material effect on the results for the year.

(iv) Owner-occupied Leasehold Interest in Land

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

(v) Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous years, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The amount held in investment property revaluation reserve at 1 April 2005 of approximately HK$2,657,000 has been transferred to the Group's accumulated profits (see Note 3 for the financial impact).

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

(vi) Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2005 have been restated (see Note 3 for the financial impact).

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

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[6]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.
[5] Effective for annual periods beginning on or after 1 May 2006.
[6] Effective for annual periods beginning on or after 1 June 2006.

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

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	Effect of	2006 HK$'000	2005 HK$'000
Non-amortisation of goodwill	HKFRS 3	923	–
Decrease in depreciation	HKAS 17	334	334
Changes in fair value of derivative financial instruments	HKAS 39	(2,054)	–
Changes in fair value of investment properties	HKAS 40	17,539	–
Increase in deferred tax liabilities relating to investment properties	HK(SIC) 21	(3,194)	(1,334)
Increase (decrease) in profit		13,548	(1,000)

The effect of the application of the new HKFRSs as at 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 (originally stated) HK$'000	Effect of HKAS 17 HK$'000	Effect of HK(SIC) 21 HK$'000	As at 31 March 2005 (restated) HK$'000	Effect of HKAS 39 HK$'000	Effect of HKAS 40 HK$'000	Effect of HKFRS 3 HK$'000	As at 1 April 2005 (restated) HK$'000
Balance sheet items								
Property, plant and equipment	1,021,537	(23,818)	–	997,719	–	–	–	997,719
Prepaid lease payments	–	24,682	–	24,682	–	–	–	24,682
Derivative financial instruments								
– assets	–	–	–	–	765	–	–	765
– liabilities	–	–	–	–	(1,394)	–	–	(1,394)
Deferred tax liabilities	–	–	(3,754)	(3,754)	–	–	–	(3,754)
Total effect on assets and liabilities	1,021,537	864	(3,754)	1,018,647	(629)	–	–	1,018,018
Accumulated profits	484,506	864	(3,754)	481,616	(629)	2,657	(1,452)	482,192
Investment property revaluation reserve	2,657	–	–	2,657	–	(2,657)	–	–
Goodwill reserve	(1,452)	–	–	(1,452)	–	–	1,452	–
Total effect on equity	485,711	864	(3,754)	482,821	(629)	–	–	482,192

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The financial effects of the application of the new HKFRS to the Group's equity at 1 April 2004 are summarised below:

	As originally stated HK$'000	Effect of HKAS 17 HK$'000	Effect of HK(SIC) 21 HK$'000	As restated HK$'000
Accumulated profits and total effect on equity	342,983	530	(2,420)	341,093

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair value, as explained in the accounting policies set out below:

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

Basis of consolidation

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

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

All inter-company transactions and balances within the Group are eliminated on consolidation.

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

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

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

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

Goodwill arising on acquisitions on or after 1 January 2005

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

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

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

Revenue recognition

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

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

Service income is recognised when services are provided.

Subcontracting income is recognised when services are provided.

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

Property, plant and equipment

Construction in progress is stated at cost less any accumulated impairment losses. Cost includes all development expenditure and other direct costs, including borrowing costs capitalised in accordance with the Group's accounting policy, attributable to such projects. It is not depreciated until the completion of construction. Cost on completed construction works is transferred to the appropriate categories of property, plant and equipment.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Group as lessee

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

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

Retirement benefits costs

Payments to the Group's defined contribution retirement benefit scheme, Mandatory Provident Fund Scheme and state managed retirement benefit scheme are charged as expenses as they fall due.

Taxation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as financial assets held for trading (derivative financial assets) and loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

Loans and receivables

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

Financial liabilities and equity

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

Financial liabilities are generally classified into financial liabilities held for trading (derivative financial liabilities) and other financial liabilities. The accounting policies adopted in respect of other financial liabilities to the Group are set out below:

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Other financial liabilities

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

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure against bank borrowings. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

Share-based payment transactions

Equity-settled share-based payment transactions

(i) Share options granted and vested prior to 1 April 2005

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

(ii) Share options granted on or after 1 April 2005

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Depreciation

The Group's net book value of property, plant and equipment (other than construction in progress) as at 31 March 2006 was approximately HK$1,395,437,000. The Group depreciates the manufacturing buildings and related improvements on a straight line basis over the shorter of the term of the lease or their useful lives. The Group depreciates the plant and machinery on a straight line basis over the estimated useful life, commencing from the date the plant and equipment is placed into productive use. The estimated useful life of the plant and equipment for productive use reflects the directors' estimate of the year that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Impairment loss on trade receivables

The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 March 2006, the carrying value of trade receivable (net of impairment loss) is approximately HK$706,632,000.

We have assessed this based on subsequent settlement. This is because we found that the debtor turnover period is approximately excluding these debt financing months and would not be longer than one year. The discounted effected would be immaterial.

Investment properties

The investment properties of the Group were stated at fair value in accordance with the accounting policy stated in note 4. The fair value of the investment properties are determined by Savills (Hong Kong) Limited, a firm of independently qualified professional valuers, and the fair value of investment properties as at respective year end were set out in note 16. Such valuations were based on certain assumptions, which were subject to uncertainty. In making the judgment, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

Certain trade and other receivables and trade and other payables of the Group are denominated in foreign currencies. The Group's foreign exchange exposures arise mainly from the exchange rate movements of Renminbi and United States dollars. The Group has entered into several derivative instruments to hedge against the risk this year.

Interest rate risk

The Group is exposed to cash flow interest rate risk through the variable-rate bank borrowings. The Group's management closely monitors the interest rate exposure and has entered into several interest rate derivatives with the objective to reduce the variability of cash flows resulting from the contracted variable interest rates.

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

Credit risk

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

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The Group has adopted procedures extending credit terms to customers and in monitoring its credit risk. The Group's current credit practices include assessment and valuation of customer's credit reliability and periodic review of their financial status to determine the credit limits to be granted. The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. As at the balance sheet, the Group has no significant concentration of credit risk, with exposure spread over a number of customers and counterparties.

7. REVENUE

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

	2006 HK$'000	2005 HK$'000
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	1,825,340	1,701,619
Trading of garment products and provision of quality inspection services	1,007,771	701,765
	2,833,111	2,403,384

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

The Group is currently engaged in two business activities: (i) production and sale of knitted fabric and dyed yarn and provision of related subcontracting services; and (ii) trading of garment products and provision of quality inspection services. These activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Year ended 31 March 2006

	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services HK$'000	Trading of garment products and provision of quality inspection services HK$'000	Consolidated HK$'000
REVENUE			
External sales	1,825,340	1,007,771	2,833,111
RESULT			
Segment result	275,038	51,935	326,973
Unallocated corporate income			22,608
Unallocated corporate expenses			(11,787)
Finance costs			(36,135)
Profit before taxation			301,659
Income tax expense			(27,941)
Profit for the year			273,718

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

BALANCE SHEET

At 31 March 2006

	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services HK$'000	Trading of garment products and provision of quality inspection services HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	3,148,631	429,002	3,577,633
Unallocated corporate assets			60,555
Consolidated total assets			3,638,188
LIABILITIES			
Segment liabilities	421,287	232,017	653,304
Unallocated corporate liabilities			1,382,197
Consolidated total liabilities			2,035,501

OTHER INFORMATION

	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services HK$'000	Trading of garment products and provision of quality inspection services HK$'000	Consolidated HK$'000
Capital additions	431,333	57,353	488,686
Depreciation and amortisation	95,101	2,978	98,079

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Year ended 31 March 2005

	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services HK$'000	Trading of garment products and provision of quality inspection services HK$'000	Consolidated HK$'000 (restated)
REVENUE			
External sales	1,701,619	701,765	2,403,384
RESULT			
Segment result	222,372	39,243	261,615
Unallocated corporate income			3,428
Unallocated corporate expenses			(11,391)
Finance costs			(17,983)
Profit before taxation			235,669
Income tax expense			(15,657)
Profit for the year			220,012

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

BALANCE SHEET

At 31 March 2005

	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services HK$'000	Trading of garment products and provision of quality inspection services HK$'000	Consolidated HK$'000 (restated)
ASSETS			
Segment assets	2,342,705	191,712	2,534,417
Unallocated corporate assets			48,839
Consolidated total assets			2,583,256
LIABILITIES			
Segment liabilities	281,359	126,260	407,619
Unallocated corporate liabilities			1,066,964
Consolidated total liabilities			1,474,583

OTHER INFORMATION

	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services HK$'000	Trading of garment products and provision of quality inspection services HK$'000	Consolidated HK$'000
Capital additions	466,542	8,133	474,675
Depreciation	62,187	1,316	63,503

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical Segments

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

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

	Revenue by geographical market	
	2006 HK$'000	2005 HK$'000
Hong Kong	883,278	856,144
Other regions of the PRC	698,163	605,183
USA	692,160	531,849
Others	559,510	410,208
	2,833,111	2,403,384

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

	Carrying amount of segment assets		Additions to property, plant and equipment and investment properties	
	As at 31.3.2006 HK$'000	As at 31.3.2005 HK$'000	As at 31.3.2006 HK$'000	As at 31.3.2005 HK$'000
Hong Kong	859,963	399,193	42,155	36,080
Other regions of the PRC	2,574,398	2,059,023	419,451	438,595
USA	114,031	71,571	–	–
Others	89,796	53,469	27,080	–
	3,638,188	2,583,256	488,686	474,675

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
– bank borrowings wholly repayable within five years	41,881	19,386
– bank borrowings not wholly repayable within five years	969	263
– finance leases	251	208
Total borrowing costs	43,101	19,857
Less: amounts capitalised	(6,966)	(1,874)
	36,135	17,983

10. INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000 (restated)
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profit for the current year		
– current year	6,324	5,111
– (over)underprovision in prior year	(773)	228
	5,551	5,339
Enterprise income tax in the PRC attributable to a subsidiary	16,808	8,877
Overseas income tax	185	107
	22,544	14,323
Deferred tax *(Note 28)*:		
Current year	5,397	1,334
	27,941	15,657

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

Pursuant to the relevant laws and regulations in the PRC, certain Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. One of the Group's PRC subsidiary's profit is subject to PRC income tax at a rate of 12% (2005: 12%).

10. INCOME TAX EXPENSE *(Continued)*

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

	2006 HK$'000	2005 HK$'000 (restated)
Profit before taxation	301,659	235,669
Tax at the domestic income tax rate of 17.5%	52,790	41,242
Tax effect of expenses that are not deductible for tax purpose	17,225	11,593
Tax effect of income not taxable for tax purpose	(19,582)	(11,457)
(Over)underprovision in respect of prior years	(773)	228
Tax effect of utilisation of tax losses previously not recognised	(353)	(147)
Tax effect of other deferred tax assets not recognised	844	651
Effect of tax exemptions granted to PRC subsidiaries	(65)	(5,174)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(22,145)	(21,279)
Tax charge for the year	27,941	15,657

Details of deferred taxation are set out in note 28.

11. PROFIT FOR THE YEAR

	2006 HK$'000	2005 HK$'000 (restated)
Profit for the year has been arrived at after charging:		
Directors' remuneration *(Note (i))*	15,867	12,557
Other staff costs	159,691	113,474
Total staff costs	175,558	126,031
Auditors' remuneration		
– current year	1,844	1,035
– underprovision in prior years	199	48
	2,043	1,083
Release of prepaid lease payments	793	793
Depreciation of property, plant and equipment	98,079	63,503
Operating expenses paid to a joint venture partner in the PRC for the use of plant and equipment *(Note (ii))*	3,901	3,774
Changes in fair value of derivative financial instruments	2,054	–
and after crediting:		
Gross rental income from investment properties and property, plant and equipment	3,681	2,167
Less: Outgoings	(586)	(345)
Net property rental income	3,095	1,822
Changes in fair value of investment properties	17,539	–
Surplus on revaluation of investment properties	–	1,186
Gain on disposal of property, plant and equipment	1,539	194
Interest income	1,940	866

Included in the total staff costs is an aggregate amount of approximately HK$7,466,000 (2005: HK$5,655,000) in respect of contributions of retirement benefits schemes made by the Group (Note (iii)).

The cost of inventories (recognised as an expense) of the Group approximates the cost of sales as disclosed in the consolidated income statement on page 41.

11. PROFIT FOR THE YEAR *(Continued)*

Notes:

(i) Information regarding directors' and employees' emoluments

Directors

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

2006

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

2005

	Li Ming Hung HK$'000	Chen Tien Tui HK$'000	So Kam Wah HK$'000	Lee Yuen Chiu, Andy HK$'000	Choi Lin Hung HK$'000	Kan Ka Hon HK$'000	Phaisalakani Vichai (Andy Hung) HK$'000	Lau Chung Kwan HK$'000	Total HK$'000
Fees	–	–	–	–	–	150	150	–	300
Basic salaries and other benefits	3,649	3,649	883	1,296	1,771	–	–	–	11,248
Performance related incentive payments	113	113	228	241	25	–	–	–	720
Retirement benefits scheme contribution	36	36	77	122	18	–	–	–	289
Total emoluments	3,798	3,798	1,188	1,659	1,814	150	150	–	12,557

No directors waived any emoluments in the year ended 31 March 2006 and 2005.

11. PROFIT FOR THE YEAR *(Continued)*

Notes: (Continued)

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

Employees

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

	2006 HK$'000	2005 HK$'000
Basic salaries and other benefits	900	1,185
Performance related incentive payments	315	–
Retirement benefits scheme contribution	84	12
	1,299	1,197

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

The amount includes operating lease rentals in respect of rented premises amounting to approximately HK$885,000 (2005: HK$885,000).

(iii) Retirement benefits scheme contributions

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

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

As at 31 March 2006 and 2005, there were no forfeited contributions available to offset future employers' contributions to the scheme.

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

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

12. DISTRIBUTIONS

	2006 HK$'000	2005 HK$'000
Interim dividend of HK6.5 cents (2005: HK5.5 cents) per ordinary share	37,331	30,932
Proposed final dividend of HK6.0 cents (2005: HK5.5 cents) per ordinary share	38,616	31,200
	75,947	62,132

The amount of dividends recognised as distributions to equity holders of the Company was HK$68,531,000 (2005: HK$56,032,000) for the year ended 31 March 2006.

The amount of the final dividend proposed for the year ended 31 March 2006, which will be in cash form with a scrip dividend option, has been calculated by reference to the 643,601,133 issued ordinary shares outstanding as at the date of these financial statements.

The final dividend of HK6.0 cents (2005: HK5.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

During the year, scrip dividends were offered in respect of the 2005 interim and final dividends and 2006 interim dividend. These scrip dividends were as follows:

	2006	2005	
	Interim HK$'000	Interim HK$'000	Final HK$'000
Cash	17,007	16,481	17,581
Share alternative	20,324	14,451	13,619
	37,331	30,932	31,200

13. EARNINGS PER SHARE

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

	2006 HK$'000	2005 HK$'000 (restated)
Profit for the year attributable to equity holders of the Company	250,269	202,655

	Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	576,662,264	560,612,293
Effect of dilutive potential ordinary shares in respect of share options	677,126	7,835,563
Weighted average number of ordinary shares for the purposes of diluted earnings per share	577,339,390	568,447,856

The following table summarises the impact on both basic and diluted earnings per share as a result of:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2006 cents	2005 cents	2006 cents	2005 cents
Reported figures before adjustments	41.1	36.3	41.0	35.8
Adjustments arising from changes in accounting policies *(see Note 3)*	2.3	(0.2)	2.3	(0.1)
Restated	43.4	36.1	43.3	35.7

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Plant and machinery	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST							
At 1 April 2004, originally stated	234,972	72,135	11,837	8,165	15,205	520,600	862,914
Adoption of HKAS 17	(28,197)	–	–	–	–	–	(28,197)
	206,775	72,135	11,837	8,165	15,205	520,600	834,717
Additions	56,765	231,778	4,409	507	2,854	152,300	448,613
Transfer	166,712	(200,744)	22	–	–	34,010	–
Disposals	–	–	(4)	–	(832)	–	(836)
At 31 March 2005	430,252	103,169	16,264	8,672	17,227	706,910	1,282,494
Exchange realignment	26,922	3,600	424	5	292	31,567	62,810
Additions	141,832	190,628	7,248	4,150	2,945	102,116	448,919
Acquisition of a subsidiary	–	–	3,775	2,139	280	3,622	9,816
Transfer	286,144	(287,034)	–	–	–	890	–
Transfer from investment properties	550	–	–	–	–	–	550
Disposals	–	–	(361)	–	(1,034)	(5,561)	(6,956)
At 31 March 2006	**885,700**	**10,363**	**27,350**	**14,966**	**19,710**	**839,544**	**1,797,633**
DEPRECIATION							
At 1 April 2004, originally stated	30,504	–	7,938	6,258	7,729	172,741	225,170
Adoption of HKAS 17	(3,252)	–	–	–	–	–	(3,252)
	27,252	–	7,938	6,258	7,729	172,741	221,918
Provided for the year	11,217	–	1,757	715	2,650	47,164	63,503
Eliminated on disposals	–	–	(4)	–	(642)	–	(646)
At 31 March 2005	38,469	–	9,691	6,973	9,737	219,905	284,775
Exchange realignment	1,940	–	357	77	228	11,030	13,632
Provided for the year	22,069	–	3,018	747	2,908	69,337	98,079
Eliminated on disposals	–	–	(127)	–	(443)	(4,083)	(4,653)
At 31 March 2006	**62,478**	**–**	**12,939**	**7,797**	**12,430**	**296,189**	**391,833**
CARRYING VALUES							
At 31 March 2006	**823,222**	**10,363**	**14,411**	**7,169**	**7,280**	**543,355**	**1,405,800**
At 31 March 2005	391,783	103,169	6,573	1,699	7,490	487,005	997,719

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

Property, plant and equipment are depreciated using the straight line method as follows:

Buildings	4% per annum
Leasehold improvements	5 to 10 years or over the term of the relevant leases, if shorter
Furniture, fixtures and equipment	15% – 25% per annum
Motor vehicles	20% per annum
Plant and machinery	6 $^{2}/_{3}$% – 25% per annum

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

The net book value of property, plant and equipment held under finance leases at 31 March 2006 amounted to approximately HK$24,119,000 (2005: HK$25,894,000).

15. PREPAID LEASE PAYMENTS

	2006 HK$'000	2005 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term leases	4,827	5,052
Leasehold land outside Hong Kong:		
Medium-term leases	18,610	19,630
	23,437	24,682
Analysed for reporting purposes as:		
Current asset	783	793
Non-current asset	22,654	23,889
	23,437	24,682

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 April 2004	12,350
Addition	26,062
Surplus on revaluation	7,518
At 31 March 2005	45,930
Addition	29,951
Changes in fair value recognised in the income statement	17,539
Transfer to property, plant and equipment	(550)
At 31 March 2006	**92,870**

The fair value of the Group's investment properties at 31 March 2006 have been arrived at on the basis of a valuation carried out at that date by Savills (Hong Kong) Limited, independent qualified professional valuers not connected with the Group. Savills (Hong Kong) Limited is members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

For the year ended 31 March 2005, the surplus arising on revaluation of investment properties amounting to HK$1,186,000 had been credited directly to the income statement. The balances of HK$2,657,000 and HK$3,675,000 had been credited to the revaluation reserve and minority interests respectively.

All of the Group's investment properties are situated in Hong Kong and are held under medium-term leases. They are held for rental purpose under operating leases.

17. GOODWILL

	HK$'000
COST	
At 1 April 2004, 31 March 2005 and 1 April 2005	3,228
Eliminated of accumulated amortisation upon the application of HKFRS 3	(2,584)
Acquisition of a subsidiary	5,541
At 31 March 2006	**6,185**
AMORTISATION	
At 1 April 2004	1,938
Provided for the year	646
At 1 April 2005	2,584
Eliminated of accumulated amortisation upon the application of HKFRS 3	(2,584)
At 31 March 2006	**–**
CARRYING VALUES	
At 31 March 2006	**6,185**
At 31 March 2005	644

Until 31 March 2005, goodwill had been amortised over 5 years.

As explained in Note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill have been allocated to one cash generating unit (CGUs) which is garment trading segment. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 March 2006 allocated to this unit are as follows:

	Goodwill HK$'000
Trading of garment products	6,185

The basis of the recoverable amounts of the above CGU and their major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, from the balance sheet date and a discount rate of 5.5%. A key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of these units to exceed the aggregate recoverable amount of this unit.

18. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	422,913	410,385
Work in progress	242,310	158,292
Finished goods	195,506	144,217
	860,729	712,894

19. TRADE RECEIVABLES

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

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

	2006 HK$'000	2005 HK$'000
0 – 60 days	527,271	309,672
61 – 90 days	80,826	60,673
91 – 120 days	56,242	37,035
Over 120 days	42,293	46,690
	706,632	454,070

The fair value of the Group's trade receivables at 31 March 2006 approximates the corresponding carrying amount.

As a cash flow management, the Group discounted certain bills receivables to banks with recourse in exchange for cash. The discounted trade receivables as at 31 March 2006 amounted to approximately HK$191,248,000 and pursuant to HKAS 39, the discounted trade receivables and the related proceeds of the same amount were included in the "Trade receivables" and "Bank borrowings – amount due within one year" balances of the financial statements of the Company as at 31 March 2006. In accordance with the transitional provisions of HKAS 39, comparative amount as at 31 March 2005 of approximately HK$189,673,000 has not been restated.

20. OTHER RECEIVABLES/BANK BALANCES AND CASH/OTHER PAYABLES

The fair values of other receivables and other payables at 31 March 2006 approximate their corresponding carrying amounts.

Bank balances and cash of the Group and of the Company comprises bank balances and cash held and short-term bank deposits that are interest-bearing at market interest rate and are with maturity of three months or less. The bank deposits carry fixed interest rates ranged from 3.2% to 5.4% (2005: 2.2% to 4.4%) per annum. The fair values of these amounts at the balance sheet date approximate their carrying values.

21. TRADE PAYABLES

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

	2006 HK$'000	2005 HK$'000
0 – 60 days	377,796	319,293
61 – 90 days	44,425	17,257
Over 90 days	52,743	16,097
	474,964	352,647

The fair value of the Group's trade payables at 31 March 2006 approximates the corresponding carrying amount.

22. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The lease term was four years and will be expired in the coming year. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 5.2% to 5.4% per annum. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Amounts payable under finance leases:				
Within one year	2,673	5,458	2,618	5,265
In more than one year but not more than two years	–	2,634	–	2,601
	2,673	8,092	2,618	7,866
Less: Future finance charges	(55)	(226)	–	–
Present value of lease obligations	2,618	7,866	2,618	7,866
Less: Amount due for settlement within 12 months and shown under current liabilities			(2,618)	(5,265)
Amount due for settlement after 12 months			–	2,601

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

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

23. BANK BORROWINGS

	2006 HK$'000	2005 HK$'000
Bank loans	930,080	823,168
Bills discounted with recourse and debts factored with recourse	191,248	–
Import loans and trust receipts loans	282,208	192,543
Mortgage loans	34,942	23,357
	1,438,478	1,039,068
Analysed as:		
– secured	53,388	42,634
– unsecured	1,385,090	996,434
	1,438,478	1,039,068
Carrying amount repayable:		
Within one year	837,287	351,785
In more than one year but not more than two years	240,436	191,521
In more than two years but not more than three years	228,568	260,504
In more than three years but not more than four years	112,877	221,587
In more than four years but not more than five years	4,243	2,827
In more than five years	15,067	10,844
	1,438,478	1,039,068
Less: Amount due within one year included in current liabilities	(837,287)	(351,785)
Amount due after one year	601,191	687,283

The effective interest rate on the Group's variable-rate bank borrowings are ranging from 3.2% to 5.2% (2005: 1.4% to 4.2%) per annum.

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

	Renminbi (equivalent HK$'000)	**United States dollars** (equivalent HK$'000)
As at 31 March 2006	**33,155**	**79,823**
As at 31 March 2005	33,063	77,174

23. BANK BORROWINGS *(Continued)*

During the year, the Group obtained new loans in the amount of approximately HK$303,327,000. The loans bear interest at market rates. The proceeds were used for expansion of the Group's operation.

The fair values of the Group's bank borrowings, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date, approximate their carrying amounts.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
	HK$'000	HK$'000	HK$'000	HK$'000
Interest rates swaps	236	(3,136)	–	–
Foreign currency forward contracts	225	(8)	–	–
	461	(3,144)	–	–

Major terms of the interest rate swaps are as follows:

Notional amount	Maturity	Swaps
HK$115,200,000	18 December 2006	*Note i*
HK$23,437,500	18 March 2008	*Note ii*
HK$250,000,000	3 December 2007	*Note iii*
HK$200,000,000	2 December 2007	*Note iii*

Notes:

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

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

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

Major terms of the foreign currency forward contracts are as follows:

Notional amount	Maturity	Exchange rate
US$4,000,000	3 May 2006	Buy 1 US$ at HK$7.70
US$4,000,000	3 May 2006	Sell 1 US$ at HK$7.70
US$4,000,000	3 May 2006	Sell 1 US$ at HK$7.72

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the prices provided by multi-national financial institutions for equivalent instruments at the balance sheet date.

25. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
At 1 April 2004, 31 March 2005 and 31 March 2006, at HK$0.01 each	40,000,000,000	400,000
Issued and fully paid:		
At 1 April 2004	558,224,668	5,582
Issue of shares pursuant to scrip dividend scheme for 2004 final and 2005 interim dividend *(Note i)*	9,047,191	91
At 31 March 2005	567,271,859	5,673
Issue of shares pursuant to scrip dividend scheme for 2005 final and 2006 interim dividend *(Note ii)*	16,329,274	163
Placing of new shares *(Note iii)*	60,000,000	600
At 31 March 2006	**643,601,133**	**6,436**

Notes:

(i) On 15 October 2004 and 25 February 2005, the Company issued and allotted a total of 4,171,664 shares and 4,875,527 shares of HK$0.01 each at an issue price of HK$3.0163 and HK$2.9640 each in lieu of cash for the 2004 final and 2005 interim dividends pursuant to the scrip dividend circulars dispatched to shareholders on 22 September 2004 and 10 January 2005 respectively. These shares rank pari passu in all respects with the then existing shares.

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

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

26. CAPITAL RESERVE

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

27. SHARE-BASED PAYMENT TRANSACTIONS

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

At 31 March 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 133,400,000 (2005: 134,000,000), representing approximately 21% (2005: 24%) of the shares of the Company in issue at that date. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme and any other share option scheme of the Group) to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue on the Adoption Date. Such 10% limit may be refreshed, subject to specific approval by the shareholders of the Company, from time to time with reference to the issued share capital of the Company for the time being. Subject to specific approval by the shareholders of the Company, the total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

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

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

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

Category	Date of grant	Exercise price HK$	Exercisable period	Number of option shares: Outstanding at 1.4.2004	Granted during the year	Lapsed during the year	Outstanding at 1.4.2005	Lapsed during the year	Outstanding at 31.3.2006
Directors									
Mr. Li Ming Hung	9 October 2003	3.04	9.10.2004 – 29.11.2011	500,000	–	–	500,000	–	500,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	–	1,000,000	–	1,000,000	–	1,000,000
Mr. Chen Tien Tui	9 October 2003	3.04	9.10.2004 – 29.11.2011	500,000	–	–	500,000	–	500,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	–	1,000,000	–	1,000,000	–	1,000,000
Mr. So Kam Wah	23 May 2003	2.35	27.5.2003 – 29.11.2011	3,300,000	–	–	3,300,000	–	3,300,000
	9 October 2003	3.04	9.10.2004 – 29.11.2011	1,700,000	–	–	1,700,000	–	1,700,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	–	4,000,000	–	4,000,000	–	4,000,000
Mr. Lee Yuen Chiu, Andy	23 May 2003	2.35	27.5.2003 – 29.11.2011	1,500,000	–	–	1,500,000	–	1,500,000
	9 October 2003	3.04	9.10.2004 – 29.11.2011	3,500,000	–	–	3,500,000	–	3,500,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	–	4,000,000	–	4,000,000	–	4,000,000
Mr. Choi Lin Hung	23 May 2003	2.35	27.5.2003 – 29.11.2011	1,500,000	–	–	1,500,000	–	1,500,000
	9 October 2003	3.04	9.10.2004 – 29.11.2011	3,500,000	–	–	3,500,000	–	3,500,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	–	4,000,000	–	4,000,000	–	4,000,000
Employees	23 May 2003	2.35	27.5.2003 – 29.11.2011	23,100,000	–	–	23,100,000	–	23,100,000
	9 October 2003	3.04	9.10.2004 – 29.11.2011	40,300,000	–	(200,000)	40,100,000	(300,000)	39,800,000
	4 June 2004	3.15	7.6.2004 – 29.11.2011	–	41,000,000	(200,000)	40,800,000	(300,000)	40,500,000
				79,400,000	55,000,000	(400,000)	134,000,000	(600,000)	133,400,000

No consideration was received during the year ended 31 March 2006 from directors and employees for taking up the options granted (2005: HK$47).

28. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation HK$'000	Revaluation of investment properties HK$'000	Total HK$'000
At 1 April 2004, as originally stated	–	–	–
Effects of changes in accounting policies *(see note 3)*	–	2,420	2,420
At 1 April 2004, as restated	–	2,420	2,420
Charge to income statement for the year	–	1,334	1,334
At 1 April 2005, as restated	–	3,754	3,754
Charge to income statement for the year	2,203	3,194	5,397
At 31 March 2006	**2,203**	**6,948**	**9,151**

At the balance sheet date, the Group has unused tax losses of approximately HK$7,867,000 (2005: HK$9,884,000) available for offset against future profits and deductible temporary difference of approximately HK$21,931,000 (2005: HK$17,108,000) in respect of accelerated accounting depreciation. No deferred tax assets have been recognised in respect of the unused tax losses and the deductible temporary differences due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

29. ACQUISITION OF A SUBSIDIARY

On 3 January 2006, the Group acquired 60% of the share capital of 江門冠暉製衣有限公司 for a consideration of HK$12,000,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$5,541,000.

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

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

Net cash inflow arising on acquisition represents cash and cash equivalent acquired amounting to HK$1,208,000.

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

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

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

30. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2005, the Company issued and allotted a total of 4,171,664 shares and 4,875,527 shares of HK$0.01 each at an issue price of HK$3.0163 and HK$2.9640 each in lieu of cash for the 2004 final and 2005 interim dividends pursuant to the scrip dividend circulars dispatched to shareholders on 22 September 2004 and 10 January 2005 respectively, as set out in note 25(i).

During the year ended 31 March 2006, the Company issued and allotted a total of 7,047,799 shares and 9,281,475 shares of HK$0.01 each at an issue price of HK$1.9323 and HK$2.1898 each in lieu of cash for the 2005 final and 2006 interim dividends pursuant to the scrip dividend circulars dispatched to shareholders on 7 September 2005 and 16 January 2006 respectively as set out in note 25(ii).

In addition, the consideration of HK$12,000,000 payable to the vendor for the acquisition of a subsidiary as set out in note 29 was being offset against the trade receivables with the relevant vendor upon the execution of the set-off agreement.

31. PLEDGE OF ASSETS

At 31 March 2006, investment properties and certain property, plant and equipment of the Group with aggregate net book value of approximately HK$91,700,000 (2005: HK$44,500,000) and approximately HK$19,824,000 (2005: HK$12,730,000) respectively, were pledged to banks as security for the credit facilities granted to the Group.

32. CONTINGENT LIABILITIES

	2006 HK$'000	2005 HK$'000
Bills discounted with recourse	–	56,089
Debts factored with recourse	–	133,584
	–	189,673

33. COMMITMENTS

(i) Payments to a PRC joint venture partner

At 31 March 2006, the Group was committed to pay an annual guaranteed distribution to a PRC joint venture partner in the coming year amounting to approximately HK$3,901,000 (2005: HK$3,781,000), which included an amount of approximately HK$885,000 (2005: HK$885,000) in respect of operating lease commitments for rented premises.

(ii) Capital commitments

	2006 HK$'000	2005 HK$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the financial statements	74,919	120,683

(iii) Operating lease commitments and arrangements

The Group as lessee

	2006 HK$'000	2005 HK$'000
Minimum lease payments paid under operating leases in respect of premises during the year	2,514	1,663

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

	2006 HK$'000	2005 HK$'000
Within one year	2,584	967
In the second to fifth year inclusive	2,402	1,167
Over five years	–	79
	4,986	2,213

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

33. COMMITMENTS *(Continued)*

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

The Group as lessor

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

	2006 HK$'000	2005 HK$'000
Within one year	1,909	2,352
In the second to fifth year inclusive	792	417
	2,701	2,769

The Group's investment properties are expected to generate rental yields of 4% (2005: 5%) on an ongoing basis. All of the investment properties held have committed tenants for the next two years.

34. RELATED PARTY DISCLOSURES

(i) During the year, the Group paid operating lease rentals amounting to approximately HK$108,000 (2005: HK$108,000) to Verdure Enterprises Limited ("Verdure"). Verdure is owned by a discretionary trust, the objects of which include Mr. Li Ming Hung, directors of the Company and his family.

The payment of the above operation lease rentals constitutes exempted continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

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

The transactions contemplated by the tenancy agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

(iii) During the year, the Group entered into a master sale and purchase agreement ("Master Supply Agreement") for a term from 9 September 2005 to 31 March 2008 with 南京新一棉紡織印染有限公司 Nanjing Synergy Textiles Limited ("Nanjing Synergy"). The entire equity interest of Nanjing Synergy is indirectly owned by the Trusts in equal share. Pursuant to the Master Supply Agreement, Nanjing Synergy agreed to supply yarn to the Group and the purchase during the year was approximately HK$65,711,000 (2005: Nil). As at 31 March 2006, the aggregate amount of purchase deposits paid by the Group to Nanjing Synergy was approximately HK$65,447,000 (2005: Nil) included in deposits, prepayments and other receivables.

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

34. RELATED PARTY DISCLOSURES *(Continued)*

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

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

(v) At 31 March 2006, the Company and certain of its wholly owned subsidiaries have conditionally agreed to provide guarantees in favour of several banks in respect of facilities granted by the banks to Ford Glory International Limited ("Ford Glory"), a subsidiary of the Company in which Mr. Choi Lin Hung has a 49% beneficial interest.

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

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

	2006 HK$'000	2005 HK$'000
Short-term benefits	16,737	13,453
Post employment benefits	430	301
	17,167	13,754

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

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

35. BALANCE SHEET OF THE COMPANY

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	*(i)*	432	353
Investments in subsidiaries	*(ii)*	85,985	85,985
Amounts due form subsidiaries	*(iii)*	–	601,387
		86,417	687,725
Current assets			
Deposits, prepayments and other receivables		811	110
Amounts due from subsidiaries	*(ii)*	852,935	4,990
Bank balances		1,929	227
		855,675	5,327
Current liabilities			
Other payables		1,129	955
Dividend payable		97	72
Amount due to a subsidiary	*(ii)*	23,648	583
		24,874	1,610
Net current assets		830,801	3,717
		917,218	691,442
Capital and reserves			
Share capital		6,436	5,673
Reserves	*(iv)*	910,782	685,769
Equity attributable to equity holders of the Company		917,218	691,442

35. BALANCE SHEET OF THE COMPANY *(Continued)*

Notes:

(i) Property, plant and equipment

	Motor vehicles HK$'000
COST	
At 1 April 2004 and 31 March 2005	492
Addition	488
Disposal	(492)
At 31 March 2006	**488**
DEPRECIATION	
At 1 April 2004	41
Provided for the year	98
At 31 March 2005	139
Provided for the year	97
Eliminated on disposal	(180)
At 31st March 2006	**56**
CARRYING VALUES	
At 31 March 2006	**432**
At 31 March 2005	353

Motor vehicles are depreciated using the straight line method at the rate of 20% per annum.

(ii) Investment in subsidiaries

	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	85,985	85,985

Particulars of the principal subsidiaries of the Company at 31 March 2006 are disclosed in note 36.

(iii) Amounts due from subsidiaries and amount due to a subsidiary

	2006 HK$'000	2005 HK$'000
Amounts due from subsidiaries – non-current	–	601,387
Amount due from subsidiaries – current	852,935	4,990
Amount due to a subsidiary	23,648	583

The amounts due from (to) subsidiaries were unsecured and interest-free demand.

In the opinion of the directors, except for the balance of amounts due from subsidiaries of HK$606,377,000 at 31 March 2005 would not be demanded for payment within twelve months of the balance sheet date and accordingly the amounts were shown as non-current assets.

35. BALANCE SHEET OF THE COMPANY *(Continued)*

Notes: (Continued)

(iv) Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Dividend reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 April 2004	445,381	154,214	25,120	9,719	634,434
Issue of shares under scrip dividend scheme of for 2004 final and 2005 interim dividend	26,943	–	(27,034)	–	(91)
Interim dividend proposed	–	–	30,932	(30,932)	–
Final dividend proposed	–	–	31,200	(31,200)	–
Dividend declared	–	–	(29,018)	–	(29,018)
Profit for the year	–	–	–	80,444	80,444
At 31 March 2005	472,324	154,214	31,200	28,031	685,769
Issue of shares under scrip dividend scheme of for 2005 final and 2006 interim dividend	33,780	–	(33,943)	–	(163)
Placing of new shares	175,200	–	–	–	175,200
Transaction costs attributable to issue of new shares	(5,468)	–	–	–	(5,468)
Interim dividend proposed	–	–	37,331	(37,331)	–
Final dividend proposed	–	–	38,616	(38,616)	–
Dividend declared	–	–	(34,588)	–	(34,588)
Profit for the year	–	–	–	90,032	90,032
At 31 March 2006	**675,836**	**154,214**	**38,616**	**42,116**	**910,782**

The contributed surplus of the Company represents the difference between the book values of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company under the group reorganisation which became effective on 22 April 1996, net of HK$100,000 subsequently applied in paying up in full at par the 1,000,000 nil paid shares, together with a credit of approximately HK$68,429,000 arising from the capital reduction in January 2001.

In addition to accumulated profits, under the company laws in Bermuda, the contributed surplus account of a company is also available for distribution. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

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

The Company's reserves available for distribution to shareholders as at 31 March 2006 are represented by its accumulated profits, dividend reserve and contributed surplus, totalling approximately HK$234,946,000 (2005: HK$213,445,000).

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 31 March 2006 are as follows:

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

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value issued/ registered capital held by the Company/ subsidiaries %	Effective proportion of issued/registered capital held by the Group %	Principal activities
Tectfield Industrial Limited	Hong Kong	Ordinary HK$10,000 Deferred *(Note(i))* HK$10,000	77.78	77.78	Manufacture of and trading in labels and hang-tags
Top Star Limited	Hong Kong	Ordinary HK$2	100	51	Property holding
V-Apparel International Limited	Hong Kong	Ordinary HK$100	100	100	Manufacture of garment
Value Plus (Macao Commercial Offshore) Limited	Macau	MOP100,000	100	51	Provision of quality inspection service
Victory Apparel Jordan Manufacturing Limited	Jordan	Ordinary JD50,000	100	51	Manufacture of garment
Victory City Company Limited	Hong Kong	Ordinary HK$10 Deferred *(Note (i))* HK$8,000,000	100	100	Trading of knitted fabric
Victory City Holdings Limited	British Virgin Islands	Ordinary US$6	100	100	Investment holding
Victory City Investments Limited	British Virgin Islands	Ordinary US$1	100	100	Investment holding
Victory City Overseas Limited ("VCOL")	British Virgin Islands	Ordinary US$2 Preference US$3,300 *(Note (ii))*	100	100	Investment holding and provision of subcontracting services
江門市新會區冠華針織廠有限公司 ("Xinhiu Victory City") *(Note (iii))*	PRC	US$20,944,510	100	100	Knitting, dyeing and finishing of fabric
江門市新會區揚名針織廠有限公司	PRC	*(Note (iv))*	100	100	Knitting, dyeing and finishing of fabric
江門錦豐科技纖維有限公司 *(Note (v))*	PRC	US$2,837,027	100	100	Dyeing of yarn and provision of related subcontracting services
江門冠暉製衣有限公司 *(Note (v))*	PRC	HK$10,852,919	60	60	Manufacture of garment

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

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

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

(iii) Pursuant to the co-operative joint venture contract and various supplemental agreements, the Group is to bear the entire risk and liabilities and share the entire profit and loss of Xinhui Victory City during the term of the co-operative joint venture commencing from 6 May 1988 (date of establishment of Xinhui Victory City) to 31 August 2007. Upon dissolution of Xinhui Victory City, the PRC joint venture partner will re-possess the assets it had contributed or the residual value of the assets, which should be determined by both parties. The Group has accordingly paid the PRC joint venture partner an operating expense for the use of plant and machinery and factory premises contributed and other facilities provided by the PRC joint venture partner, and Xinhui Victory City is treated by the Group as a wholly-owned subsidiary for accounting purposes. All assets contributed by the PRC joint venture partner have been treated as assets under operating leases and are therefore not included as assets of the Group.

(iv) The company is a co-operative joint venture established in the PRC. The verified paid up registered capital of 江門市新會區揚名針織廠有限公司 was approximately US$1,709,000 as at 31 March 2006, which was wholly contributed by the Group. Additional capital contribution by the Group during the year ended 31 March 1999, which amounted to approximately US$394,000, has not yet been verified as at 31 March 2006.

(v) The Company is wholly foreign owned enterprise incorporated in the PRC with limited liability.

None of the subsidiaries had any debt securities subsisting at 31 March 2006 or at any time during the year.

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

VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

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