



CONTENTS

- 1 Corporate Information
- 2 President's Statement and Management Discussion and Analysis
- 6 Biographical Details of Directors and Senior Management
- 8 Report of the Directors
- 14 Report of the Auditors
- 15 Consolidated Income Statement
- 16 Consolidated Balance Sheet
- 18 Balance Sheet
- 19 Consolidated Statement of Changes in Equity
- 20 Consolidated Cash Flow Statement
- 22 Notes to the Financial Statements
- 74 Financial Summary
- 75 Summary of Properties
- 77 Notice of Annual General Meeting

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Koon Wing Yee
(President and Chief Executive Officer)

Mr. Tsang Yiu Kai
(Vice President)

Ms. Lui Yuk Chu

Independent Non-Executive Directors

Mr. Wong Sui Wah Michael

Mr. Pun Hei Hectar

COMPANY SECRETARY

Mr. Tsang Yiu Kai

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL PLACE OF BUSINESS

Unit A, 7th Floor
Hong Kong Spinners Building
Phase 6, 481-483 Castle Peak Road
Cheung Sha Wan, Kowloon
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

As to Hong Kong law:
Richards Butler

As to Bermuda law:
Appleby Spurling Hunter

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking
Corporation Limited

Standard Chartered Bank

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

1218

PRESIDENT'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

The directors of Easyknit International Holdings Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 March 2004 with the comparative figures for the previous financial year.

FINANCIAL RESULTS

For the year ended 31 March 2004, turnover of the Group was HK\$706,044,000, representing an increase of approximately 2.7% compared to HK\$687,652,000 of the previous year. Profit from operations amounted to HK\$62,568,000, recording a rise of about 5.2% compared to HK\$59,490,000 of the previous year. Earnings per share was HK\$0.160 (2003: loss per share HK\$0.041).

During the year under review, the Group recorded a gain on disposal of a subsidiary of HK\$63,950,000 arising from the disposal of the Group's investments in the shares (the "Sale Shares") of CITIC 21CN Company Limited ("CITIC 21CN") by way of selling the entire issued share capital of Touch Profits Limited ("Touch Profits"), a then wholly-owned subsidiary of the Company and the registered owner of all the Sale Shares.

BUSINESS REVIEW

During the year ended 31 March 2004, the Group was principally engaged in sourcing and export of cotton-based knitted garments for women, children and infants, property investments, and bleaching and dyeing. During the year under review, Hong Kong economy experienced a progressive upturn brought by the implementation of "Closer Economic Partnership Agreement" (CEPA) even though the economy was hit hard by the outbreak of SARS in the second quarter of last year. Benefited from the blooming economy, the Group achieved a satisfactory business performance with a recorded net profit of HK\$140,830,000 during the year under review.

Garment-related business

During the year under review, the Group continued its primary operation in garment sourcing and export. Business from this segment contributed to 83.7% of the total turnover and amounted to HK\$590,885,000, representing a decrease of approximately 7.1% as compared to HK\$636,143,000 of the previous year. Differentiating geographically, United States of America (the "US") continued to contribute the major portion of the Group's garment operations. Turnover of garment exported to the US was HK\$525,916,000, down by approximately 8.8% compared to the previous year and represented around 74.5% of the Group's total turnover.

The Group had well established production facilities and business operations in Hong Kong, the People's Republic of China (the "PRC") and the US respectively. The turnover contributed by the dyeing and bleaching factory in Dongguan, the PRC amounted to HK\$55,679,000 during the year, equivalent to approximately 7.9% of the Group's total turnover.

Property investment

With the better performance of the overall economy, activity in the sales and rental market for both residential and commercial property has showed a strong pick-up since the third quarter of 2003 and thereby benefiting the Group's property investment business. According to the First Quarter Economic Report of 2004 prepared by the Hong Kong Government, trading activities in both the primary and secondary markets increased remarkably. In May 2003, the Group launched the sales of its developed commercial-residential property, Fa Yuen Plaza, located at 19 Fa Yuen Street, Mongkok. During the year under review, all commercial units were leased out and up to the date of this report, about 70% of the residential units were sold out. The turnover contributed by the property investment business was HK\$57,498,000, representing an increase of 201.7% compared to the previous year.

PRESIDENT'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Garment-related business

In view of the lifting of the textile export quota system in 2005, it is expected that the textile and garment industry will bloom and flourish. The Group will dedicate its resources to the development of its garment-related business to capture higher profit margin and increase its contribution to the Group's revenue.

In order to facilitate the US garment operations, the Group is committed to develop high profitable business and build up its own brand name "Mary Mac" in the US Market by fully utilizing the regional headquarter in New York. The Group believes that stronger US and overseas customer coordination and network would prepare it well for the ample future opportunities.

Property investment

With the recent rise in the US economy, introduction of the CEPA and further relaxation of restrictions of Mainlanders entering Hong Kong, barring any unforeseeable terrorism, the directors are optimistic about the property market and expect a modest rise in properties' value and rental, especially for properties in prime retail areas. It is believed that the property investment business and the sale of residential units of Fa Yuen Plaza will continue to bring in considerable revenue to the Group.

Overall, the PRC's accession to the World Trade Organization and its successful bid in hosting Olympic Games 2008 would add to the rapid trade expansion, thereby directly benefiting the Group's business. The Group will continue to explore potential investment projects or businesses with a view to diversifying and expanding its sources of income.

SIGNIFICANT CORPORATE EVENTS

Subsequent to the Company's acquisition of about 55.27% equity interest of Asia Alliance Holdings Limited (formerly known as i100 Limited) ("Asia Alliance") through its wholly-owned subsidiary, Landmark Profits Limited on 28 January 2003, a mandatory general offer was made for the shares that the Company did not own. The general offer resulted in the Company holding approximately 55.30% equity interest of Asia Alliance as at 14 April 2003. Disposals of Asia Alliance's shares in June 2003 brought the Group's interest in Asia Alliance down to approximately 51.73% as at 30 June 2003. On 25 September 2003, Asia Alliance issued 13,773,412 rights shares at a price of HK\$1.00 per rights share and the Group through Landmark Profits Limited took up 7,125,518 rights shares. As a result of the placing of 8,264,047 and 9,916,856 new shares of Asia Alliance on 17 November 2003 and 22 December 2003 respectively, the Company's interest in Asia Alliance has been diluted to about 35.93% of the then issued share capital of Asia Alliance and Asia Alliance has become an associated company of the Company.

On 15 January 2004, the Group entered into the agreement with Fairworld Investments Limited (as purchaser) and Mr. Chen Tien Tui (as warrantor), both are independent third parties, to dispose of 100,000,000 shares of CITIC 21 CN which representing approximately 3.14% of the issued share capital of CITIC 21 CN at the date of the agreement for an aggregate consideration of HK\$84,000,000. The gain on the disposal of the Group's investment in the shares of CITIC 21 CN through the disposal of Touch Profits amounted to HK\$63,950,000.

On 24 March 2004, the Group through Landmark Profits Limited took up 106,882,770 rights shares at a price of HK\$0.25 per rights share.

PRESIDENT'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

On 10 May 2004, the Company entered into an agreement (as supplemental by a supplemental letter dated 15 June 2004) (the "Agreement") with each of Mr. Louie Tsz Chung and Ms. Koon Po Fun, pursuant to which, amongst other things, the Group has agreed to purchase garments, apparel, clothing and textiles from the companies controlled by Mr. Louie Tsz Chung/companies controlled by Ms. Koon Po Fun respectively for period of three years commencing from 1 April 2004 subject to respective caps. The respective transactions (the "Ongoing Connected Transactions") contemplated under the Agreement with each of Mr. Louie Tsz Chung and Ms. Koon Po Fun constitute non-exempt continuing connected transactions of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and are subject to reporting and independent shareholders' approval at the special general meeting of the Company to be held on 28 July 2004 ("SGM"). Resolutions to approve the reduction of the authorised share capital of the Company from HK\$3,000,000,000 to HK\$1,000,000,000 by the diminution of 20,000,000,000 authorised but unissued shares of the Company and the adoption of new bye-laws of the Company will also be proposed at the SGM. Details of the Ongoing Connected Transactions, the proposed reduction in authorised share capital and adoption of new bye-laws of the Company are set out in the circular of the Company dated 29 June 2004.

On 17 May 2004, the disposal of the entire issued share capital of Po Cheong International Enterprises Limited ("Po Cheong") by the Company's wholly-owned subsidiary, Easyknit International Trading Company Limited, to Best Ability Limited, a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000 (subject to adjustment) was completed. The Group believes proceeds from the transaction will help reduce the Group's bank borrowings and strengthen its financial position for the development of the Group's other business segments. As the Group's bleaching and dyeing business was conducted only through Po Cheong and its subsidiary, the Group is no longer engaged in that business after the disposal (except through its interest in Asia Alliance).

On 24 June 2004, the Company raised approximately HK\$47,500,000 (net of expenses) by way of the rights issue of 441,224,462 rights shares at a price of HK\$0.11 per rights share on the basis of one rights share for every two shares held. Approximately HK\$40,000,000 of the proceeds has been used to repay the Group's outstanding bank borrowing and the balance will be applied as general working capital.

As announced by the Company on 26 July 2004, the Company proposed to reduce the entire amounts standing to the credit of the share premium account and the capital reserve account of the Company (the "Proposed Reductions") and to apply part of the credits arising from the Proposed Reductions in the sum of HK\$1,785,508,000 to offset the accumulated losses of the Company as at 31 March 2004 in full and the remaining balance of HK\$227,555,000 be transferred to the contributed surplus account of the Company. The Proposed Reductions are conditional upon the passing of a special resolution at a special general meeting of the Company to be held on 23 August 2004. Details of the Proposed Reductions are set out in the announcement of the Company dated 26 July 2004.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2004, the Group's bank deposits amounted to HK\$67,357,000. Net current assets were HK\$277,992,000. During the year under review, the Group's operations continued to be financed by the internal resources and bank borrowings.

The Group's gearing ratio as at 31 March 2004 was 0.5 times (31 March 2003: 0.6 times), which was calculated on the basis of the Group's total borrowings (but excluding obligations under finance leases) of HK\$301,545,000 (31 March 2003: HK\$341,816,000) over the shareholders' funds of HK\$667,215,000 (31 March 2003: HK\$526,385,000).

PRESIDENT'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 March 2004, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

CAPITAL STRUCTURE

The Group had no debt securities or other capital instruments as at 31 March 2004 and up to the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as the disposal of Po Cheong and Touch Profits as set out in "Significant Corporate Events" above, the Group had no material acquisitions and disposals of subsidiaries or associates during the year ended 31 March 2004.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There was no material change in the Group's pledges of assets as compared to the most recent published annual report while the contingent liabilities and capital commitments decreased by HK\$7,741,000 and HK\$27,427,000 respectively.

CAPITAL EXPENDITURE

During the year under review, the Group spent approximately HK\$17,465,000 on acquisition of other property, plant and equipment.

EMPLOYMENT, TRAINING, DEVELOPMENT AND REMUNERATION POLICY

As at 31 March 2004, the number of staff of the Group in the PRC, Hong Kong and the US was about 200, 60 and 13 respectively. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The remuneration policy and package is adjusted according to the human resources market environment. The Group has set up provident retirement benefits, in the form of Mandatory Provident Fund entitlement to Hong Kong's employees.

APPRECIATION

On behalf of the board, I would like to express my sincere gratitude to our staff and fellow directors for their contribution to the Group's development and cordial thanks to the continuing support of our customers, suppliers, business associates and shareholders.

By Order of the Board



Koon Wing Yee

President and Chief Executive Officer

Hong Kong, 26 July 2004

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Koon Wing Yee

President and Chief Executive Officer

Mr. Koon, aged 48, is a co-founder of the Group and has been involved in the textiles industry for more than 26 years. Mr. Koon is responsible for the overall management and development of the Group. Mr. Koon is also an executive director and the President and Chief Executive Officer of Asia Alliance. He is the husband of Ms. Lui Yuk Chu, who is also an executive director of the Company. Mr. Koon was awarded the “Young Entrepreneur Award” in Hong Kong in December 1994 for his outstanding achievements as an entrepreneur. Under his leadership, the sourcing group has grown to be one of the leading garment exporters in Hong Kong. Mr. Koon was appointed to the Board in September 1994.

Mr. Tsang Yiu Kai FHKSA, FCCA, AHKIT, CGA, CPA

Vice President and Company Secretary

Mr. Tsang, aged 52, is responsible for the corporate affairs, finance and general management of the Group. He is also an executive director, the Vice President and the company secretary of Asia Alliance. Mr. Tsang holds a Diploma in Accountancy from Hong Kong Baptist University (formerly known as The Hong Kong Baptist College) and he is a fellow member of The Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. Mr. Tsang has about 28 years of working experience. Mr. Tsang was appointed to the Board in September 1994.

Ms. Lui Yuk Chu

Executive Director

Ms. Lui, aged 46, is a co-founder of the Group and the wife of Mr. Koon Wing Yee. She is also an executive director of Asia Alliance. She has been involved in the textiles industry for more than 26 years and has extensive experience in design, manufacturing, marketing and distribution of apparel. Ms. Lui was appointed to the Board in September 1994.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Sui Wah Michael

Mr. Wong, aged 46, is a solicitor and notary public of Hong Kong and a China Appointed Attesting Officer. He is a partner in Philip K H Wong, Kennedy Y H Wong and Co. Solicitors & Notaries. He holds a B.A. Degree from McMaster University in Canada in 1981 and obtained his L.L.B from University of London in the United Kingdom, where he attended King's College in 1984. He is also the company secretary of Raymond Industrial Limited, a company listed on the Stock Exchange. Mr. Wong was appointed to the Board in October 2000.

Mr. Pun Hei Hectar

Mr. Pun, aged 33, was admitted to practise as a Barrister of the High Court in 1995. He holds a Master of Laws degree from the University of London in the United Kingdom, where he attended King's College and is now a practising Barrister. Mr. Pun was appointed to the Board in January 2004.



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Miss Leung Siu Mei

Assistant General Manager

Miss Leung, aged 44, joined the Group in 1992 and was promoted to her current position in 1994. She assists the Vice President in the financial and administration management of the Group.

Mr. Chan Chung Shun

Property Manager

Mr. Chan, aged 48, joined the Group in 1998. Mr. Chan obtained the honour degree of Bachelor of Arts from the University of Middlesex in England in 1983. He is responsible for the Group's property management.

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the sourcing and export of cotton based knitted garments for women, children and infants, bleaching and dyeing, and property investments.

RESULTS

The results of the Group are set out in the consolidated income statement on page 15.

No interim dividend was paid during the year ended 31 March 2004. The directors now recommend the payment of a final dividend of 0.5 HK cent per share, which in aggregate amounts to approximately HK\$6,618,000, in respect of the year ended 31 March 2004 to the shareholders whose names appear on the register of members of the Company on 23 August 2004. The directors' recommendation as to the payment of a final dividend will be subject to the due fulfilment of certain conditions, details of which are set out in note 16 to the financial statements. Subject to the fulfilment of these conditions, the directors expect that the dividend warrants will be despatched to the shareholders on or before 30 September 2004.

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier of the Group by itself and together with the other four largest suppliers accounted for approximately 32% and 64%, respectively, of the Group's purchases for the year under review.

The largest customer of the Group by itself and together with the other four largest customers accounted for approximately 19% and 41%, respectively, of the Group's turnover for the year under review.

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

SHARE CAPITAL

The details of the Company's share capital are set out in note 34 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$17.5 million on acquisition of property, plant and equipment. The details of the movements in property, plant and equipment of the Group during the year are set out in note 19 to the financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 March 2004 by a firm of independent professional property valuers and the resulting surplus of HK\$42,500,000 was credited to the consolidated income statement to reverse deficit previously charged. Details of these are set out in note 20 to the financial statements.

REPORT OF THE DIRECTORS

PRINCIPAL SUBSIDIARIES

The details of the Company's principal subsidiaries at 31 March 2004 are set out in note 47 to the financial statements.

PRINCIPAL ASSOCIATES

The details of the Group's principal associates at 31 March 2004 are set out in note 23 to the financial statements.

DIRECTORS

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

Executive directors:

Koon Wing Yee	(President and Chief Executive Officer)
Tsang Yiu Kai	(Vice President)
Lui Yuk Chu	

Independent non-executive directors:

Wong Sui Wah, Michael	
Pun Hei, Hectar	(appointed on 1 January 2004)
Chan Chi Chung	(resigned on 1 January 2004)

In accordance with the Company's Bye-laws 101, Mr. Pun Hei, Hectar shall hold office until the forthcoming annual general meeting of the Company and, being eligible, offers himself for re-election.

In accordance with the Company's Bye-laws 110, Mr. Wong Sui Wah, Michael (who has been longest in office since his last election) retires by rotation and, being eligible, offers himself for re-election.

None of the directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation). The independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

The independent non-executive directors have reviewed the connected transactions (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) as set out in note 18 to the financial statements, and confirmed that these transactions had been transacted on normal commercial terms and in the ordinary course of business of the Group.

The Group made advances to Asia Alliance Holdings Limited ("Asia Alliance") (formerly known as i100 Limited) to finance its operation. Such advances were unsecured, bore interest at prime rate and were repaid in full during the year. Interest paid by Asia Alliance during the year amounted to HK\$1,348,637. Asia Alliance was formerly a non wholly-owned subsidiary and became an associate of the Group during the year.

REPORT OF THE DIRECTORS

The Group also made advances to Mary Mac Apparel, Inc. ("Mary Mac") to finance its operation. Such advances are unsecured, bear interest at 5% per annum and are repayable on demand. Mary Mac was formerly a non wholly-owned subsidiary and became a wholly-owned subsidiary during the year.

The Group conditionally agreed to sell the entire issued shares of Po Cheong International Enterprises Limited ("Po Cheong"), a wholly-owned subsidiary of the Company, to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing.

Save as disclosed above, there was no other contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE BONDS

As at 31 March 2004, the interests and short positions of the directors and the chief executives of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(a) Interests in the Company (long positions):

Name of director	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of the Company
Mr. Koon Wing Yee (<i>note 1</i>)	Interest of spouse	324,216,452	36.74%
Ms. Lui Yuk Chu (<i>note 1</i>)	Beneficiary of a trust	324,216,452	36.74%
Mr. Tsang Yiu Kai	Beneficial owner	98,175	0.01%

Note 1: The 324,216,452 shares were registered in the name of and were beneficially owned by Magical Profits Limited which was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Newcourt Trustees Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 324,216,452 shares by virtue of the SFO.

REPORT OF THE DIRECTORS

(b) Interests in associated corporations (long positions):

Asia Alliance

Name of director	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of Asia Alliance
Mr. Koon Wing Yee (<i>note 2</i>)	Interest of spouse	128,259,324	35.93%
Ms. Lui Yuk Chu (<i>note 2</i>)	Beneficiary of a trust	128,259,324	35.93%

Note 2: These shares were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of the Company. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of the Company. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Newcourt Trustees Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 128,259,324 shares by virtue of the SFO.

Wellmake Investments Limited (“Wellmake”) (*note 3*)

Name of director	Capacity	Number of non-voting deferred share held	Percentage to issued non-voting deferred shares of Wellmake
Mr. Koon Wing Yee	Beneficial owner	1	50%
Ms. Lui Yuk Chu	Beneficial owner	1	50%

Note 3: All the issued ordinary shares which carry the voting rights in the share capital of Wellmake were held by the Company.

Save as disclosed above, as at 31 March 2004, none of the directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of the Company's share option scheme and movements of options granted during the year are set out in note 35(a) to the financial statements.

The closing price of the Company's shares on 15 February 2004, being the trading day immediately before the date of offer of the options set out in note 35(a) to the financial statements, was HK\$0.143.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year because of the absence of a readily available market value of the share options on the shares of the Company. Accordingly, the directors were unable to arrive at any assessment of the value of these share options.

No options were granted to, or exercised by, the directors during the year. There was no outstanding option granted to the directors at the beginning and at the end of the year.

The total number of shares available for issue under the Company's share option scheme as at the date of this report is 132,367,338, representing approximately 10% of the issued share capital of the Company as at that date.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or the spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures), of the Company or any other body corporate, or had any right to subscribe for the securities or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, the persons (other than the directors or the chief executives of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions:

Name of substantial shareholder	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of the Company
Magical Profits Limited (<i>note</i>)	Beneficial owner	324,216,452	36.74%
Accumulate More Profits Limited (<i>note</i>)	Interest of controlled corporation	324,216,452	36.74%
Newcourt Trustees Limited (<i>note</i>)	Trustee	324,216,452	36.74%

Note: These shares were registered in the name of and were beneficially owned by Magical Profits Limited which was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Newcourt Trustees Limited as trustee of The Magical 2000 Trust (the beneficiaries of which included Ms. Lui Yuk Chu, a director of the Company, and her family members other than spouse).

Other than as disclosed above, as at 31 March 2004, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

REPORT OF THE DIRECTORS

PURCHASE, SALE AND REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, except that the independent non-executive directors of the Company have not been appointed for specific terms as required by paragraph 7 of the Code but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

PRE-EMPTIVE RIGHTS

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

DONATIONS

During the year, the Group made donations amounting to HK\$176,000.

POST BALANCE SHEET EVENTS

The details of the significant post balance sheet events are set out in note 46 to the financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as the auditors of the Company for the preceding three years.

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

On behalf of the Board



Koon Wing Yee

President and Chief Executive Officer

Hong Kong, 26 July 2004

REPORT OF THE AUDITORS



TO THE SHAREHOLDERS OF EASYKNIT INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 15 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, 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 Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

26 July 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2004

	NOTES	2004 HK\$'000	2003 HK\$'000 (Restated)
Turnover	4	706,044	687,652
Cost of sales		<u>(567,958)</u>	<u>(540,668)</u>
Gross profit		138,086	146,984
Other operating income		4,392	3,071
Distribution costs		(33,330)	(37,797)
Administrative expenses		(74,151)	(61,025)
Reversal of deficit arising on revaluation of investment properties		42,500	15,815
Impairment loss recognised in respect of property, plant and equipment		(9,911)	—
Loss on disposal of investment properties		(1,644)	—
Impairment loss of goodwill on acquisition of a subsidiary/subsidiaries		(104)	(7,194)
Impairment loss of goodwill on acquisition of additional interests in subsidiaries		<u>(3,270)</u>	<u>(364)</u>
Profit from operations	7	62,568	59,490
Unrealised loss on investment in 21CN CyberNet Corporation Limited	8	—	(11,000)
Loss on disposal of investment in 21CN CyberNet Corporation Limited	9	—	(50,456)
Gain on disposal of a subsidiary	10	63,950	—
Gain on deemed disposal of discontinued operations	6	19,317	—
Gain on partial disposal of a subsidiary	11	886	—
Income on release of guarantee	12	—	5,000
Finance costs	13	(7,855)	(10,128)
Share of results of associates		(3,919)	—
Share of results of a jointly controlled entity		(72)	—
Profit (loss) before taxation		134,875	(7,094)
Taxation	15	<u>(2,459)</u>	<u>(21,044)</u>
Profit (loss) before minority interests		132,416	(28,138)
Minority interests		8,414	3,267
Net profit (loss) for the year		<u>140,830</u>	<u>(24,871)</u>
Proposed dividend	16	<u>6,618</u>	—
Earnings (loss) per share	17	<u>HK\$0.160</u>	<u>HK\$(0.041)</u>
Basic			

CONSOLIDATED BALANCE SHEET

At 31 March 2004

	NOTES	2004 HK\$'000	2003 HK\$'000 (Restated)
Non-current assets			
Property, plant and equipment	19	39,003	40,760
Investment properties	20	479,280	452,780
Permanent textile quota entitlements	21	884	2,211
Club debenture		921	741
Interests in associates	23	20,788	—
Interests in jointly controlled entities	24	—	1,253
		540,876	497,745
Current assets			
Properties held for sale	25	56,686	89,500
Other investments	26	—	20,000
Inventories	27	8,355	10,770
Consideration receivable on disposal of a subsidiary	28	79,000	—
Trade and other receivables	29	226,713	197,893
Loans receivable	30	43,277	71,692
Bills receivable		16,401	17,982
Tax recoverable		2,467	373
Bank balances and cash		67,357	53,808
		500,256	462,018
Current liabilities			
Trade and other payables	31	55,778	73,688
Bills payable		704	—
Amounts due to jointly controlled entities	24	—	1,234
Tax payable		15,343	17,394
Obligations under finance leases - amount due			
within one year	32	19	19
Secured borrowings - amount due within one year	33	150,420	161,483
		222,264	253,818
Net current assets		277,992	208,200
		818,868	705,945

CONSOLIDATED BALANCE SHEET

At 31 March 2004

	NOTES	2004 HK\$'000	2003 HK\$'000 (Restated)
Capital and reserves			
Share capital	34	88,245	88,245
Reserves		578,970	438,140
		667,215	526,385
Minority interests			
		—	(1,036)
Non-current liabilities			
Obligations under finance leases - amount due after one year	32	18	38
Secured borrowings - amount due after one year	33	151,125	180,333
Deferred taxation	37	510	225
		151,653	180,596
		818,868	705,945

The financial statements on pages 15 to 73 were approved and authorised for issue by the Board of Directors on 26 July 2004 and are signed on its behalf by:



Koon Wing Yee

Director



Tsang Yiu Kai

Director

BALANCE SHEET

At 31 March 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Interests in subsidiaries	22	339,492	379,197
Club debenture		921	741
		<u>340,413</u>	<u>379,938</u>
Current assets			
Consideration receivable on disposal of a subsidiary	28	79,000	—
Other receivables		148	154
Bank balances and cash		63,142	27,336
		<u>142,290</u>	<u>27,490</u>
Current liabilities			
Sundry payables		352	430
Amounts due to subsidiaries	22	118,182	56,627
		<u>118,534</u>	<u>57,057</u>
Net current assets (liabilities)		<u>23,756</u>	<u>(29,567)</u>
		<u>364,169</u>	<u>350,371</u>
Capital and reserves			
Share capital	34	88,245	88,245
Reserves	36	275,924	262,126
		<u>364,169</u>	<u>350,371</u>



Koon Wing Yee

Director



Tsang Yiu Kai

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2004

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 <i>(Note 36)</i>	Special reserve HK\$'000 <i>(Note 36)</i>	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2002						
- as previously reported	22,061	1,103,894	895,932	9,800	(1,559,540)	472,147
- prior period adjustment on adoption of SSAP 12 (Revised) <i>(note 2)</i>	—	—	—	—	(312)	(312)
- as restated	22,061	1,103,894	895,932	9,800	(1,559,852)	471,835
Rights issue of shares	66,184	13,237	—	—	—	79,421
Net loss for the year	—	—	—	—	(24,871)	(24,871)
At 31 March 2003	<u>88,245</u>	<u>1,117,131</u>	<u>895,932</u>	<u>9,800</u>	<u>(1,584,723)</u>	<u>526,385</u>
At 1 April 2003						
- as previously reported	88,245	1,117,131	895,932	9,800	(1,584,498)	526,610
- prior period adjustment on adoption of SSAP 12 (Revised)	—	—	—	—	(225)	(225)
- as restated	88,245	1,117,131	895,932	9,800	(1,584,723)	526,385
Net profit for the year	—	—	—	—	140,830	140,830
At 31 March 2004	<u>88,245</u>	<u>1,117,131</u>	<u>895,932</u>	<u>9,800</u>	<u>(1,443,893)</u>	<u>667,215</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2004

	2004 HK\$'000	2003 HK\$'000
Cash flows from operating activities		
Profit (loss) before taxation	134,875	(7,094)
Adjustments for:		
Share of results of associates	3,919	—
Share of results of a jointly controlled entity	72	—
Interest income	(3,172)	(2,216)
Interest expense	7,849	10,124
Finance charges on obligations under finance leases	6	4
Depreciation	7,682	4,151
Amortisation of permanent textile quota entitlements	1,305	1,551
Impairment loss of goodwill on acquisition of a subsidiary/subsidiaries	104	7,194
Impairment loss of goodwill on acquisition of additional interests in subsidiaries	3,270	364
Allowance for doubtful debts	1,094	6,353
Reversal of deficit arising on revaluation of investment properties	(42,500)	(15,815)
Allowance for properties held for sale	—	6,080
Impairment loss recognised in respect of property, plant and equipment	9,911	—
Loss on disposal of property, plant and equipment	149	11
Loss on waiver of amount due from a minority shareholder of a subsidiary	117	—
Loss on waiver of loan to a jointly controlled entity	7	—
Gain on disposal of permanent textile quota entitlements	(1)	—
Loss on disposal of investment properties	1,644	—
Gain on partial disposal of a subsidiary	(886)	—
Gain on deemed disposal of discontinued operations	(19,317)	—
Gain on disposal of a subsidiary	(63,950)	—
Unrealised loss on other investments	—	11,000
Loss on disposal of other investments	2,328	50,372
Operating profit before movements in working capital	44,506	72,079
Decrease in properties held for sale	32,814	—
Decrease (increase) in inventories	2,133	(971)
Increase in trade and other receivables	(34,354)	(4,242)
Decrease in bills receivable	1,581	22,088
Decrease in trade and other payables	(14,029)	(31,908)
Increase (decrease) in bills payable	704	(3,071)
Cash from operations	33,355	53,975
Interest paid	(7,849)	(10,404)
Finance charges on obligations under finance leases paid	(6)	(4)
Hong Kong Profits Tax paid	(6,319)	(13,900)
Net cash from operating activities	19,181	29,667

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Cash flows from investing activities			
Net cash inflow (outflow) from advance of loans		28,415	(60,822)
Repayment of loan from an associate		21,270	—
Proceeds from disposal of other investments		15,877	54,604
Proceeds from disposal of investment properties		14,356	—
Disposal of a subsidiary, net of cash and cash equivalents disposed of	39	4,950	—
Interest received		3,172	2,216
Proceeds from partial disposal of a subsidiary		886	—
Proceeds from disposal of property, plant and equipment		287	5
Proceeds from disposal of permanent textile quota entitlements		23	—
Capital contribution to an associate		(26,723)	—
Purchase of other investments		(18,205)	(10,127)
Deemed disposal of a subsidiary, net of cash and cash equivalents disposed of	40	(17,822)	—
Purchase of property, plant and equipment		(17,465)	(107,958)
Acquisition of additional interests in subsidiaries		(468)	—
Purchase of club debenture		(180)	—
Acquisition of a subsidiary/subsidiaries, net of cash and cash equivalents acquired	38	(72)	(26,215)
Advance to an associate		(16)	—
Net cash from (used in) investing activities		8,285	(148,297)
Cash flows from financing activities			
Bank borrowings raised		102,916	169,332
Capital contribution from minority shareholders		22,374	—
Repayment of bank borrowings		(139,187)	(136,065)
Repayment of obligations under finance leases		(20)	(20)
Proceeds from issue of new shares		—	79,421
Other loan raised		—	4,000
Net cash (used in) from financing activities		(13,917)	116,668
Net increase (decrease) in cash and cash equivalents		13,549	(1,962)
Cash and cash equivalents at beginning of the year		53,808	55,770
Cash and cash equivalents at end of the year, represented by bank balances and cash		67,357	53,808

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Singapore Exchange Securities Trading Limited.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sourcing and export of cotton based knitted garments for women, children and infants, bleaching and dyeing, and property investments.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the Hong Kong Financial Reporting Standards ("HKFRS") - Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for year 2003 have been restated accordingly. As a result of this change in policy, the balance of accumulated losses at 1 April 2002 has been increased by HK\$312,000, which is the cumulative effect of the change in policy on the results for periods prior to 1 April 2002. The net profit for the year ended 31 March 2004 has been decreased by HK\$285,000 (2003: a decrease of net loss of HK\$87,000).

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

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 the effective date of acquisition or disposal, as appropriate.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition. Goodwill is capitalised and amortised on a straight line basis over its useful economic life.

Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill/less negative goodwill in so far as it has not already been amortised/released to income, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Revenue recognition

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

Income from properties developed for sales is recognised when legal title of the properties is passed. Payments received from purchaser prior to this stage are recorded as deposits received (included in trade and other payables) under current liabilities.

Telecommunications revenue for services provided for fixed periods is recognised on a straight line basis over the respective periods. Other telecommunications revenue is recognised when products are delivered or services are rendered.

Other service income is recognised when services are rendered.

The gain on disposal of permanent or temporary textile quota entitlements is recognised upon execution of a legally binding, unconditional and irrevocable transfer form to the transferee.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the lease terms.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable, except in the case of loans which are deemed to be doubtful at which stage interest accrual ceases.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent 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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and any accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 "Property, plant and equipment" ("SSAP 17") from the requirement to make revaluation on a regular basis of the Group's leasehold land and buildings, certain of which had been carried at revalued amount prior to the effective date of SSAP 17 and accordingly, no further valuation of these properties is carried out.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	Over the duration of the leases or fifty years, whichever is the shorter
Others	5% - 20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Leases

Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of these assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income derived therefrom being negotiated at arm's length.

Investment properties are stated at their open market values based on independent professional valuations at 31 March each year. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, any balance on the investment property revaluation reserve which is attributable to that property will be credited to the income statement and included in the determination of the gain or loss on disposal.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is twenty years or less.

Textile quota entitlements

Permanent textile quota entitlements purchased from outside parties are stated at cost less accumulated amortisation and any identified impairment losses. The cost of permanent textile quota entitlements is amortised on a straight line basis over a period of five years by equal monthly instalments up to 31 December 2004.

Temporary textile quota entitlements purchased from outside parties are charged to the income statement at the time of utilisation, or in the absence of such utilisation upon the expiry of the relevant utilisation period.

Club debenture

Club debenture, which is held for long-term investment purposes, is stated at cost less any identified impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity, which are held-to-maturity debt securities, are measured at amortised cost less any identified impairment losses. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments, as appropriate.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment losses.

Other investments are measured at fair value, with unrealised gains and losses included in the profit or loss for the year.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Inventories

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

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 net 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 income statement items that are never taxable or deductible.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Taxation - *continued*

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

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

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

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits costs

The amount of the Group's contributions payable under the Group's retirement benefits schemes is charged to the income statement as and when incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods and properties sold, net of returns, and services rendered by the Group, the total amount of quota income received and receivable from temporary transfer of permanent textile quota entitlements, and rental income received and receivable during the year. An analysis of the Group's turnover is as follows:

	2004	2003
	HK\$'000	HK\$'000
Continuing operations:		
Sales of goods	551,938	579,202
Sales of properties	34,424	—
Quota income	38,947	56,941
Rental income	23,074	19,056
	648,383	655,199
Discontinued/discontinuing operations (<i>see note 6</i>):		
Telecommunications services	1,982	2,664
Bleaching and dyeing services	55,679	29,789
	57,661	32,453
	706,044	687,652

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four main operating divisions - garment sourcing and export, property investment, investment in securities and loan financing. These divisions are the bases on which the Group reports its primary segment information. The division of telecommunications services and related investments was discontinued in November 2003 and the Group is in the process of discontinuing its bleaching and dyeing business at 31 March 2004 (see note 6).

Segment information about these businesses is presented below:

Year 2004

(i) Income statement

	Continuing operations				Discontinued/ discontinuing operations			Consolidated HK\$'000
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Tele- communications services and related investments HK\$'000	Bleaching and dyeing HK\$'000	Eliminations HK\$'000	
TURNOVER								
External	590,885	57,498	—	—	1,982	55,679	—	706,044
Inter-segment	—	3,000	—	—	—	68	(3,068)	—
Total	590,885	60,498	—	—	1,982	55,747	(3,068)	706,044
RESULT								
Segment result and profit from operations	36,169	59,130	(2,333)	4,701	(26,274)	(363)	(8,462)	62,568
Gain on disposal of a subsidiary			63,950					63,950
Gain on deemed disposal of discontinued operations					19,317			19,317
Gain on partial disposal of a subsidiary					886			886
Finance costs								(7,855)
Share of results of associates					(3,919)			(3,919)
Share of results of a jointly controlled entity					(72)			(72)
Profit before taxation								134,875
Taxation								(2,459)
Profit before minority interests								132,416
Minority interests								8,414
Net profit for the year								140,830

Notes:

- (a) Inter-segment transactions are charged at prevailing market prices.
- (b) Turnover from garment sourcing and export includes income from temporary transfer of permanent textile quota entitlements of HK\$34,421,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

Year 2004 - *continued*

(ii) Balance sheet

	Continuing operations			Discontinuing operations		Consolidated HK\$'000
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Bleaching and dyeing HK\$'000	
ASSETS						
Segment assets	226,008	540,814	79,000	43,465	37,225	926,512
Interests in associates						20,788
Unallocated corporate assets						93,832
Consolidated total assets						1,041,132
LIABILITIES						
Segment liabilities	31,262	15,433	—	27	12,323	59,045
Unallocated corporate liabilities						314,872
Consolidated total liabilities						373,917

(iii) Other information

	Continuing operations			Discontinued/ discontinuing operations			Consolidated HK\$'000
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Tele- communications services and related investments HK\$'000	Bleaching and dyeing HK\$'000	
Capital additions	252	10	—	—	12,098	5,105	17,465
Depreciation and amortisation	2,059	430	—	—	4,848	1,650	8,987
Impairment loss recognised in respect of property, plant and equipment	—	—	—	—	9,911	—	9,911
Loss on disposal of investment properties	—	1,644	—	—	—	—	1,644
(Gain) loss on disposal of property, plant and equipment	(94)	—	—	—	243	—	149
Impairment loss of goodwill on acquisition of a subsidiary	—	—	—	—	104	—	104
Impairment loss of goodwill on acquisition of additional interests in subsidiaries	3,270	—	—	—	—	—	3,270
(Reversal of allowance) allowance for doubtful debts	(119)	3	—	—	1,237	(27)	1,094
Loss on waiver of amount due from a minority shareholder of a subsidiary	—	—	—	—	117	—	117
Loss on disposal of other investments	—	—	2,328	—	—	—	2,328

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Year 2003

(i) Income statement

	Continuing operations			Discontinued/ discontinuing operations			Eliminations HK\$'000	Consolidated HK\$'000 (Restated)
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Tele- communications services and related investments HK\$'000	Bleaching and dyeing HK\$'000		
TURNOVER								
External	636,143	19,056	—	—	2,664	29,789	—	687,652
Inter-segment	—	3,144	—	—	—	—	(3,144)	—
Total	<u>636,143</u>	<u>22,200</u>	<u>—</u>	<u>—</u>	<u>2,664</u>	<u>29,789</u>	<u>(3,144)</u>	<u>687,652</u>
RESULT								
Segment result and profit from operations	<u>50,522</u>	<u>27,142</u>	<u>(705)</u>	<u>1,589</u>	<u>(17,898)</u>	<u>(485)</u>	<u>(675)</u>	59,490
Unrealised loss on investment in 21CN (see note 8)			(11,000)					(11,000)
Loss on disposal of investment in 21CN			(50,456)					(50,456)
Income on release of guarantee			5,000					5,000
Finance costs								(10,128)
Loss before taxation								(7,094)
Taxation								(21,044)
Loss before minority interests								(28,138)
Minority interests								3,267
Net loss for the year								<u>(24,871)</u>

Notes:

- (a) Inter-segment transactions are charged at prevailing market prices.
- (b) Turnover from garment sourcing and export includes income from temporary transfer of permanent textile quota entitlements of HK\$50,286,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Year 2003 - *continued*

(ii) Balance sheet

	Continuing operations			Discontinued/ discontinuing operations			Consolidated HK\$'000 (Restated)
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Tele- communications services and related investments HK\$'000	Bleaching and dyeing HK\$'000	
ASSETS							
Segment assets	202,303	543,571	20,000	72,738	9,240	32,403	880,255
Interests in jointly controlled entities	—	—	—	—	1,253	—	1,253
Unallocated corporate assets							78,255
Consolidated total assets							959,763
LIABILITIES							
Segment liabilities	34,722	14,423	10	62	8,284	16,990	74,491
Unallocated corporate liabilities							359,923
Consolidated total liabilities							434,414

(iii) Other information

	Continuing operations			Discontinued/ discontinuing operations			Consolidated HK\$'000
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Tele- communications services and related investments HK\$'000	Bleaching and dyeing HK\$'000	
Capital additions	21	102,364	—	—	288	5,565	108,238
Depreciation and amortisation	2,549	1,186	—	—	1,070	897	5,702
Loss on disposal of property, plant and equipment	—	—	—	—	—	11	11
Allowance for properties held for sale	—	6,080	—	—	—	—	6,080
Impairment loss of goodwill on acquisition of subsidiaries	—	—	—	—	7,194	—	7,194
Unrealised loss on investment in 21CN	—	—	11,000	—	—	—	11,000
Loss on disposal of investment in 21CN	—	—	50,456	—	—	—	50,456
Impairment loss of goodwill on acquisition of additional interests in subsidiaries	—	—	—	—	—	364	364
Allowance for doubtful debts	4,951	1,022	—	—	—	380	6,353

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Geographical segments

An analysis of the Group's turnover by geographical market is as follows:

	Turnover	
	2004 HK\$'000	2003 HK\$'000
Hong Kong	59,480	21,720
The People's Republic of China, excluding Hong Kong (the "PRC")	55,679	29,789
United States of America ("USA")	525,916	576,453
Canada	14,907	23,327
Mexico	13,575	14,951
Europe	36,487	21,064
Others	—	348
	706,044	687,652

An analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	984,484	901,593	12,270	102,673
PRC	38,772	34,142	5,105	5,565
USA	15,409	23,655	90	—
	1,038,665	959,390	17,465	108,238

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

6. DISCONTINUED / DISCONTINUING OPERATIONS

(a) Asia Alliance Holdings Limited ("Asia Alliance") (formerly known as i100 Limited) is incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange. It was a subsidiary of the Company (see also note 11). In November 2003 and December 2003, Asia Alliance had two placements of new shares of which the Company was not a subscriber. The Group's equity interest in Asia Alliance was diluted from approximately 51.73% immediately before Asia Alliance's first placement of shares to approximately 43.11% immediately after that and further to approximately 35.93% immediately after Asia Alliance's second placement of shares. Asia Alliance ceased to be a subsidiary of the Company and became an associate (see note 23). The Group's business relating to telecommunications services and related investments was since discontinued.

The gain on the deemed disposal amounted to HK\$19,317,000, which was credited to the consolidated income statement.

The results of the discontinued operations were as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	1,982	2,664
Cost of sales	<u>(1,703)</u>	<u>(1,271)</u>
Gross profit	279	1,393
Other operating income	442	139
Distribution costs	(11)	(6,818)
Administrative expenses	(16,969)	(5,418)
Impairment loss recognised in respect of property, plant and equipment	(9,911)	—
Impairment loss of goodwill on acquisition of a subsidiary/ subsidiaries	<u>(104)</u>	<u>(7,194)</u>
Loss from operations	(26,274)	(17,898)
Finance costs	(353)	—
Share of results of a jointly controlled entity	<u>(72)</u>	<u>—</u>
Loss for the year	<u><u>(26,699)</u></u>	<u><u>(17,898)</u></u>

The carrying amounts of the assets and liabilities of the discontinued operations at the date of the deemed disposal are set out in note 40. The total assets and total liabilities of the discontinued operation amounted to HK\$35,141,000 and HK\$12,284,000 respectively at 31 March 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

6. DISCONTINUED / DISCONTINUING OPERATIONS - *continued*

The net cash flows of the discontinued operations attributable to the Group were as follows:

	2004 HK\$'000	2003 HK\$'000
Net cash used in operating activities	(13,894)	(11,394)
Net cash used in investing activities	(12,083)	(7)
Net cash from financing activities	22,374	—
Net cash outflow	<u>(3,603)</u>	<u>(11,401)</u>

- (b) As announced by the Company on 5 March 2004, the Group conditionally agreed to sell the entire issued shares of Po Cheong International Enterprises Limited ("Po Cheong"), a wholly-owned subsidiary of the Company, to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The consideration shall be satisfied in cash, of which HK\$50,000,000 was received by the Group on 13 May 2004 and the remaining balance of HK\$15,000,000 shall be received after finalisation of the adjustment (as referred to in the sale and purchase agreement dated 5 March 2004) in the mid of 2005. The disposal constituted a discontinuing operation of the Group and was completed on 17 May 2004.

The results of the discontinuing operations were as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	55,679	29,789
Cost of sales	<u>(51,731)</u>	<u>(25,176)</u>
Gross profit	3,948	4,613
Other operating income	172	127
Distribution costs	(1,420)	(657)
Administrative expenses	<u>(3,131)</u>	<u>(4,568)</u>
Loss from operations	(431)	(485)
Finance costs	<u>(172)</u>	<u>(30)</u>
Loss for the year	<u>(603)</u>	<u>(515)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

6. DISCONTINUED / DISCONTINUING OPERATIONS - *continued*

The carrying amounts of the assets and liabilities of the discontinuing operations were as follows:

	2004 HK\$'000	2003 HK\$'000
Total assets	<u>38,773</u>	<u>33,532</u>
Total liabilities	<u>21,098</u>	<u>16,990</u>

The net cash flows of the discontinuing operations attributable to the Group were as follows:

	2004 HK\$'000	2003 HK\$'000
Net cash used in operating activities	(5,362)	(1,059)
Net cash used in investing activities	(5,090)	(5,544)
Net cash from (used in) financing activities	<u>9,478</u>	<u>(2,175)</u>
Net cash outflow	<u>(974)</u>	<u>(8,778)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

7. PROFIT FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (<i>note 14(a)</i>)	7,208	7,018
Other staff costs, including retirement benefits costs	<u>32,094</u>	<u>21,771</u>
Total staff costs	<u>39,302</u>	<u>28,789</u>
Allowance for doubtful debts	1,094	6,353
Allowance for properties held for sale (<i>note a</i>)	—	6,080
Auditors' remuneration:		
- current year	876	635
- underprovision in prior years	56	109
Cost of inventories consumed	523,254	525,477
Cost of properties sold	32,814	—
Depreciation and amortisation on:		
- owned assets	7,662	4,131
- assets held under finance leases	20	20
- permanent textile quota entitlements (<i>note b</i>)	1,305	1,551
Loss on disposal of other investments	2,328	—
Loss on disposal of property, plant and equipment	149	11
Loss on waiver of amount due from a minority shareholder of a subsidiary	117	—
Loss on waiver of loan to a jointly controlled entity	7	—
Purchased temporary textile quota entitlements utilised	7,679	3,276
and after crediting:		
Gain on disposal of other investments	—	84
Gain on disposal of permanent textile quota entitlements	1	—
Interest income	<u>3,172</u>	<u>2,216</u>

Notes:

(a) The amount is included in cost of sales.

(b) The amount is included in distribution costs.

8. UNREALISED LOSS ON INVESTMENT IN 21CN CYBERNET CORPORATION LIMITED

The amount represented the unrealised loss on revaluation of the Group's investments in shares of 21CN CyberNet Corporation Limited ("21CN") (now known as CITIC 21CN Company Limited) to fair value at 31 March 2003 (see also note 26(d)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

9. LOSS ON DISPOSAL OF INVESTMENT IN 21CN

The amount represented the loss on disposal of other investments, being shares of 21CN, to an outside party in year 2003 (see also note 26(d)).

10. GAIN ON DISPOSAL OF A SUBSIDIARY

The amount represents the gain on disposal of the entire issued share capital of Touch Profits Limited to an outside party during the year. The principal assets of Touch Profits Limited at the date of disposal are shares of 21CN (see also note 26(e)).

11. GAIN ON PARTIAL DISPOSAL OF A SUBSIDIARY

During the period from June to July 2003 when Asia Alliance was a subsidiary of the Company, the Group disposed of an aggregate of 39,328,000 shares of HK\$0.01 each of Asia Alliance, representing approximately 3.57% of the then issued capital of Asia Alliance. The gain on the partial disposal amounted to HK\$886,000, which was credited to the consolidated income statement.

As a result of the partial disposal, the Group's equity interest in Asia Alliance was reduced from approximately 55.30% to approximately 51.73% (see also note 6(a)).

12. INCOME ON RELEASE OF GUARANTEE

The amount represented income on release of a guarantee in year 2003, details of which are set out in note 26(c).

13. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
- bank borrowings wholly repayable within five years	7,496	10,190
- bank borrowings not wholly repayable within five years	—	184
- other borrowings wholly repayable within five years	353	30
- obligations under finance leases	6	4
	<hr/>	<hr/>
Total borrowing costs	7,855	10,408
Less: Amount capitalised in properties under development	—	(280)
	<hr/>	<hr/>
	7,855	10,128
	<hr/> <hr/>	<hr/> <hr/>

Borrowing costs capitalised in year 2003 arose on specific borrowing at an average interest rate of 3.6% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Executive	—	—
Independent non-executive	200	200
	<u>200</u>	<u>200</u>
Other emoluments paid to executive directors:		
Salaries and other benefits (including benefits in kind of HK\$1,968,000; 2003: HK\$1,238,000)	6,768	6,578
Retirement benefits costs	240	240
	<u>7,008</u>	<u>6,818</u>
Total directors' emoluments	<u><u>7,208</u></u>	<u><u>7,018</u></u>

The emoluments of the directors fall within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	3	2
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$1,500,001 to HK\$2,000,000	—	2
HK\$2,000,001 to HK\$2,500,000	1	—
HK\$3,000,001 to HK\$3,500,000	1	1
	<u>6</u>	<u>5</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - *continued*

(b) Information regarding employees' emoluments

The five highest paid individuals of the Group in both years included three executive directors. The emoluments of the remaining two highest paid individuals, not being directors, are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	1,824	1,327
Retirement benefits costs	—	45
	<hr/>	<hr/>
Total employees' emoluments	1,824	1,372
	<hr/> <hr/>	<hr/> <hr/>

The emoluments of these employees fall within the following bands:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	—
	<hr/>	<hr/>
	2	2
	<hr/> <hr/>	<hr/> <hr/>

During both years, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss in office. In addition, during both years, no director waived any emoluments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

15. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge (credit) comprises:		
Current tax - Hong Kong Profits Tax:		
Current year	2,339	5,938
(Over)underprovision in prior years	(165)	15,193
	2,174	21,131
Deferred taxation (<i>note 37</i>):		
Current year	264	(87)
Attributable to a change in tax rate	21	—
	285	(87)
Tax charge attributable to the Company and its subsidiaries	2,459	21,044

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) on the estimated assessable profit for the year. The effect of the increase in the Hong Kong Profits Tax rate has been reflected in the calculation of the current and deferred tax balances at 31 March 2004.

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

	2004 HK\$'000	2003 HK\$'000
Profit (loss) before taxation	134,875	(7,094)
Tax charge (credit) of Hong Kong Profits Tax at 17.5% (2003: 16%)	23,603	(1,135)
Tax effect of share of results of associates	686	—
Tax effect of share of results of a jointly controlled entity	13	—
Tax effect of expenses not deductible for tax purpose	13,492	14,616
Tax effect of income not taxable for tax purpose	(28,306)	(3,319)
Tax effect of tax losses not recognised	2,504	1,340
Tax effect of utilisation of tax losses previously not recognised	(6,394)	(3,866)
Tax effect of other deductible temporary differences not recognised	(2,995)	(1,785)
(Over)underprovision in prior years	(165)	15,193
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	21	—
Tax charge for the year	2,459	21,044

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

16. PROPOSED DIVIDEND

	2004	2003
	HK\$'000	HK\$'000
Proposed final dividend of 0.5 HK cent (2003: nil) per ordinary share	6,618	—

The final dividend of 0.5 HK cent per share has been proposed by the directors of the Company and is subject to the followings:

- (a) the passing of a special resolution approving the proposed reductions in certain reserves (as described in note 46(c)) at a special general meeting of the Company to be held prior to the forthcoming annual general meeting; and
- (b) the passing of an ordinary resolution approving the declaration of a final dividend for the year ended 31 March 2004 at the forthcoming annual general meeting.

The amount of the proposed final dividend is calculated on the basis of the proposed dividend rate and the 1,323,673,386 ordinary shares in issue at the date of this report.

17. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the following data:

	2004	2003
	HK\$'000	HK\$'000 (Restated)
Earnings (loss) for the purposes of basic earnings (loss) per share	140,830	(24,871)
Number of shares		
Number of shares/weighted average number of shares for the purposes of basic earnings (loss) per share	882,448,924	603,578,288

No diluted earnings per share for year 2004 has been presented as the exercise price of the Company's outstanding share options was higher than the average market price for the year and the exercise prices of the outstanding share options of Asia Alliance were also higher than its average market price.

No reconciliation of 2003 basic loss per share was disclosed as the adjustment to 2003 basic loss per share arising from the adoption of SSAP 12 (Revised) is insignificant.

The calculation of diluted loss per share for year 2003 was not disclosed as the exercise of the Company's outstanding share options would reduce the loss per share for that year and the exercise prices of the outstanding share options of Asia Alliance were higher than its average market price.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

18. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

- (a) During the year, the Group had the following transactions carried out at prices determined by reference to market prices for similar transactions with related parties/persons deemed to be “connected persons” by the Stock Exchange, being entities controlled by certain relatives of Mr. Koon Wing Yee and his spouse, Ms. Lui Yuk Chu, both of whom are directors of the Company:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Sales of garments	861	2,398
Bleaching and dyeing charges received	27,840	16,969
Rental income	494	—
Purchases of garments	<u>245,849</u>	<u>255,617</u>

At the balance sheet date, amounts due from these entities comprise:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade receivables	10,942	17,450
Deposits paid	<u>102,913</u>	<u>71,933</u>
Trade and other receivables	113,855	89,383
Loans and interest receivable	—	<u>3,119</u>
	<u>113,855</u>	<u>92,502</u>

The loans were unsecured and bore interest at 2% per annum.

The Group, its principal shareholders and directors of the Company neither control these entities, nor, other than having significant business transactions with these entities, exercise significant influence over these entities in making financial and operating decisions.

Consequent upon the amendments to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) which took effect on 31 March 2004, the aforesaid entities become “connected persons” and the Company is required to comply with new requirements under the amended Listing Rules relating to transactions with these connected persons. Details of the relevant ongoing connected transactions are set out, inter alia, in the circular of the Company dated 29 June 2004. The relevant agreements in respect of the ongoing connected transactions are subject to shareholders’ approval at a special general meeting to be held on 28 July 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

18. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS - *continued*

(b) During the year, the Group provided administrative services to Easyknit Properties Management Limited, a company in which Mr. Koon Wing Yee and Mr. Tsang Yiu Kai, both of whom are directors of the Company, have beneficial interests and received service income of HK\$222,000 (2003: HK\$149,000) from that company. The service income is determined based on mutually agreed terms.

19. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 April 2003	41,384	10,883	20,745	2,860	75,872
Additions	—	3,783	12,956	726	17,465
On deemed disposal of a subsidiary	—	—	(14,991)	(359)	(15,350)
Disposals	—	—	(1,992)	(686)	(2,678)
At 31 March 2004	41,384	14,666	16,718	2,541	75,309
Comprising:					
At cost	12,384	14,666	16,718	2,541	46,309
At valuation - 1995	29,000	—	—	—	29,000
	41,384	14,666	16,718	2,541	75,309
DEPRECIATION AND IMPAIRMENT LOSS					
At 1 April 2003	18,204	893	13,805	2,210	35,112
Provided for the year	241	1,201	6,032	208	7,682
Impairment loss recognised in the year	—	—	9,911	—	9,911
On deemed disposal of a subsidiary	—	—	(14,058)	(99)	(14,157)
Eliminated on disposals	—	—	(1,673)	(569)	(2,242)
At 31 March 2004	18,445	2,094	14,017	1,750	36,306
NET BOOK VALUE					
At 31 March 2004	22,939	12,572	2,701	791	39,003
At 31 March 2003	23,180	9,990	6,940	650	40,760

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

19. PROPERTY, PLANT AND EQUIPMENT - *continued*

The Group's leasehold land and buildings are situated in Hong Kong and are held under medium-term leases.

The valuation of certain leasehold land and buildings was carried out by Jones Lang Wootton Ltd., a firm of independent professional property valuers, at 31 October 1994 on an open market value vacant possession basis. Had all leasehold land and buildings been carried at cost less accumulated depreciation, their carrying value would have been stated at HK\$28,003,000 (2003: HK\$28,686,000).

The net book value of property, plant and equipment of the Group included an amount of HK\$38,000 (2003: HK\$58,000) in respect of assets held under finance leases.

During the year ended 31 March 2004, the directors conducted a review of the Group's operating assets and determined that a number of those assets were impaired. Accordingly, an impairment loss of HK\$9,911,000 has been recognised in respect of furniture, fixtures and equipment. The impairment loss was recognised based on the recoverable amounts of furniture, fixtures and equipment which were determined by the estimated discounted net future cash flows from these assets. The carrying amounts of the furniture, fixtures and equipment were reduced to the respective recoverable amounts which were estimated using market borrowing rates.

20. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1 April 2003	452,780
Disposals	(16,000)
Surplus arising on revaluation	42,500
At 31 March 2004	479,280

The investment properties are held for rental purposes under operating leases. They were revalued at 31 March 2004 by Messrs. Knight Frank, a firm of independent professional property valuers, on an open market existing use basis. This revaluation gives rise to a revaluation surplus of HK\$42,500,000 which was credited to the consolidated income statement to reverse deficit previously charged.

The Group's investment properties comprise properties situated in Hong Kong held under:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Long leases	174,000	158,000
Medium-term leases	305,280	294,780
	479,280	452,780

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

21. PERMANENT TEXTILE QUOTA ENTITLEMENTS

	THE GROUP HK\$'000
COST	
At 1 April 2003	232,726
Disposals	(2,345)
At 31 March 2004	230,381
AMORTISATION	
At 1 April 2003	230,515
Provided for the year	1,305
Eliminated on disposals	(2,323)
At 31 March 2004	229,497
CARRYING AMOUNT	
At 31 March 2004	884
At 31 March 2003	2,211

The permanent textile quota entitlements held by the Group are for shipments principally to USA.

22. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	48,577	48,726
Amounts due from subsidiaries	1,755,418	2,235,488
	1,803,995	2,284,214
Less: Allowance	(1,464,503)	(1,905,017)
	339,492	379,197
Amounts due to subsidiaries	(118,182)	(56,627)

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. An aggregate sum of HK\$66,663,000 (2003: HK\$96,681,000) bear interest at the prevailing market rates and the remaining amounts are non-interest bearing. In the opinion of the directors, repayment of the amounts due from subsidiaries will not be demanded by the Company within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current assets in the balance sheet.

The amounts due to subsidiaries are unsecured and repayable on demand. An amount of HK\$73,163,000 (2003: nil) bears interest at the prevailing market rates and the remaining amounts are non-interest bearing.

Particulars of the Company's principal subsidiaries at 31 March 2004 are set out in note 47.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

23. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	<u>20,788</u>	<u>—</u>

Particulars of the Group's principal associates as at 31 March 2004 are as follows:

Name of associate	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Nature of business
Asia Alliance Holdings Limited	Incorporated	Bermuda	Hong Kong	Ordinary	35.93%	Investment holding
Castlebright Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.93%*	Provision of management services
Digital Empires Company Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.93%*	Provision of computer system consultancy services
Good Fine Technology Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.93%*	Wireless communication business, communication solutions consultancy services and Internet operations
i100 Wireless (Hong Kong) Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.93%*	Wireless data service provider

* Derived from a 35.93% interest in Asia Alliance whose shares are listed on the Stock Exchange.

The above table lists the associates of the Group, which, in the opinion of the directors of the Company, principally affected the results of the year or constituted a substantial portion of the assets of the Group. The give details of other associates would in the opinion of the directors, result in particulars of excessive length.

24. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	—	1,231
Loan to a jointly controlled entity	—	22
	<u>—</u>	<u>1,253</u>
Amounts due to jointly controlled entities	<u>—</u>	<u>(1,234)</u>

During the year ended 31 March 2004, a jointly controlled entity became a subsidiary of the Group (see note 38) and the remaining one was struck off.

The balances with jointly controlled entities were unsecured and non-interest bearing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

25. PROPERTIES HELD FOR SALE

The properties held for sales are situated in Hong Kong and are held under medium-term leases. They are stated at net realisable value at the balance sheet date.

26. OTHER INVESTMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Equity securities listed in Hong Kong - 21CN, at market value	—	20,000

Notes:

- (a) 21CN is a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange.
- (b) As announced by the Company on 15 May 2001, the Company entered into an agreement (the "Sale Shares Agreement") on that day with Best Quarter Investments Limited ("Best Quarter") and Mr. Chan Chin Yuen ("Mr. Chan") to dispose of 211,579,420 shares of HK\$0.01 each in the issued share capital of 21CN (the "Sale Shares") held by a wholly-owned subsidiary of the Company for a consideration of HK\$88,863,356.40 of which HK\$5,000,000 was paid before the date of completion and the balance of HK\$83,863,356.40 shall be paid on 15 May 2002. Best Quarter is a company incorporated in the British Virgin Islands and Mr. Chan was the registered and beneficial owner of the entire issued share capital of Best Quarter. Best Quarter was and Mr. Chan is independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates as defined in the Listing Rules. The consideration was determined with reference to the then market value of shares of 21CN. As at the closing of trading on 15 May 2001, the closing market price of shares of 21CN as quoted on the Stock Exchange was HK\$0.42 per share, which is equivalent to the purchase price per share of the Sale Shares. Best Quarter agreed that within twelve months from the date of completion of the Sale Shares Agreement, it shall not dispose of any of the Sale Shares or any interest or charge or create or allow to exist any interest in or encumbrance over the interests of Best Quarter and of the Company under the Sale Shares save for mortgage on the Sale Shares as mutually agreed. Mr. Chan agreed to guarantee the performance of Best Quarter's obligations in the Sale Shares Agreement. Completion of the Sale Shares Agreement took place on 1 June 2001.

On 1 June 2001, the Company and Mr. Chan entered into a call option agreement, under which the Company was granted a call option to purchase all but not some of the issued share capital of Best Quarter. The exercise price of the option shall be HK\$95,210,739. This option was exercisable at any time from the date of the call option agreement to 15 May 2002.

The Sale Shares represented approximately 6.92% of the then issued share capital of 21CN. Disposal of the Sale Shares shall be recognised by the Group when the call option to acquire Best Quarter, purchaser of the Sale Shares, lapses on 15 May 2002 and the Group's interest in 21CN would then be reduced from approximately 13.27% at 31 March 2002 to 6.35% (based on 21CN's then capital structure). HK\$5,000,000, being a portion of the consideration for the Sale Shares, received by the Group was therefore shown as deposit received (included in trade and other payables) under current liabilities in the consolidated balance sheet at 31 March 2002.

Details of the above are set out, inter alia, in the circular of the Company dated 5 June 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

26. OTHER INVESTMENTS - *continued*

- (c) As announced by the Company on 7 June 2002, the Company was not paid the remaining consideration of HK\$83,863,356.40 referred to in (b) above on 15 May 2002 by Best Quarter. Pursuant to the Sale Shares Agreement, the Company, after considering the options available, entered into an agreement with Mr. Chan dated 22 May 2002 to acquire from Mr. Chan 1 share of US\$1.00 of Best Quarter, being the entire issued share capital of Best Quarter, and the shareholder loan of HK\$5,000,000 owing by Best Quarter to Mr. Chan. The aggregate consideration amounted to HK\$5,000,008 which shall not be paid in cash but shall instead be satisfied by the delivery to Mr. Chan of a letter under seal from the Company unconditionally releasing the guarantee formerly given by Mr. Chan under the Sale Shares Agreement, which was credited to the income statement in year 2003 (see note 12).

Completion of the above agreement took place on 14 June 2002 following which Best Quarter became a wholly-owned subsidiary of the Company. Disposal of the Sale Shares was therefore not recognised and the Group continued to hold 405,965,700 shares of 21CN.

Details of the above are set out, *inter alia*, in the circular of the Company dated 28 June 2002.

- (d) As announced by the Company on 12 September 2002, the Company entered into an agreement (the "2002 Sale Shares Agreement") on that day with an independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates as defined in the Listing Rules to dispose of an aggregate of 305,965,700 shares of HK\$0.01 each in the issued capital of 21CN (the "2002 Sale Shares") for an aggregate cash consideration of HK\$45,894,855. At 31 March 2003, completion of the 2002 Sale Shares Agreement has taken place and a loss on disposal amounting to HK\$50,456,000 was recognised in the consolidated income statement in year 2003 (see note 9).

At 31 March 2003, the Group held 100,000,000 shares of 21CN, representing approximately 3.22% of the issued ordinary shares of HK\$0.01 each in the capital of 21CN (based on 21 CN's then capital structure). An aggregate unrealised loss of HK\$11,000,000 was recognised in the consolidated income statement in year 2003 (see note 8).

- (e) As announced by the Company on 15 January 2004, the Company entered into an agreement (the "2004 Sale Shares Agreement") on that day with Fairworld Investments Limited ("Fairworld") and Mr. Chen Tien Tui ("Mr. T. Chen") to dispose of the remaining 100,000,000 shares of HK\$0.01 each in the issued share capital of 21CN (the "2004 Sale Shares") held by Touch Profits Limited, a then wholly-owned subsidiary of the Company, for an aggregate consideration of HK\$84,000,000. Fairworld is a company incorporated in the British Virgin Islands and Mr. T. Chen was the registered and beneficial owner of the entire issued share capital of Fairworld. Fairworld and Mr. T. Chen are independent third parties not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates as defined in the Listing Rules. The consideration was determined with reference to the then market value of shares of 21CN. As at the closing of trading on 14 January 2004, the closing market price of shares of 21CN as quoted on the Stock Exchange was HK\$0.84 per share, which is equivalent to the purchase price per share of the 2004 Sale Shares. The consideration shall be paid by Fairworld in three tranches with (i) HK\$5,000,000 upon completion of the 2004 Sale Shares Agreement; (ii) HK\$39,500,000 on or before 20 July 2004; and (iii) the remaining HK\$39,500,000 on or before 20 January 2005. Mr. T. Chen agreed to guarantee the performance of Fairworld's obligations in the 2004 Sale Shares Agreement.

Details of the above are set out, *inter alia*, in the circular of the Company dated 4 February 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

26. OTHER INVESTMENTS - *continued*

On 11 February 2004, the Company served Fairworld and Mr. T. Chen a letter proposing that the sale of the 2004 Sale Shares be effected by way of the sale of the entire issued share capital of US\$1.00 of Touch Profits Limited instead with other terms of the 2004 Sale Shares Agreement remained unchanged. Both Fairworld and Mr. T. Chen accepted the proposal. As at 31 March 2004, completion of the 2004 Sale Shares Agreement has taken place and the Group did not have any interest in the issued share capital of 21CN. Gain on disposal of Touch Profits Limited amounting to HK\$63,950,000 was recognised in the consolidated income statement in the current year (see note 10).

As at the date of this report, the Group has received HK\$44,500,000 in accordance with the terms of the 2004 Sale Shares Agreement. The remaining HK\$39,500,000 of the total consideration shall be paid by Fairworld to the Group on or before 20 January 2005.

27. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	2,145	1,976
Work-in-progress	478	669
Finished goods	5,732	8,125
	8,355	10,770
	8,355	10,770

At 31 March 2003, finished goods of HK\$125,000 were carried at net realisable value.

28. CONSIDERATION RECEIVABLE ON DISPOSAL OF A SUBSIDIARY

The amount represents the consideration receivable on disposal of the entire issued share capital of Touch Profits Limited, the principal assets of which at the date of disposal are shares of 21CN (see note 26(e)). The repayment terms of the balance is as follows:

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Repayable:		
On or before 20 July 2004	39,500	—
On or before 20 January 2005	39,500	—
	79,000	—
	79,000	—

As at the date of this report, the sum repayable by 20 July 2004 has been received by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

29. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranged from 30 to 90 days to its trade customers. The aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 - 60 days	121,451	156,329
61 - 90 days	17,345	23,626
Over 90 days	82,475	8,311
	221,271	188,266
	221,271	188,266

30. LOANS RECEIVABLE

The loans are repayable by instalments within one year. They comprised:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Amount secured by property interests or listed securities and bearing interest at rates ranging from 2% to 5% (2003: 5% to 8%) per annum	22,200	49,500
Unsecured amount		
- guaranteed by outside parties and bearing interest at rates ranging from 2% to 5% (2003: 2% to 9%) per annum	20,142	17,692
- bearing interest at rates ranging from 4% to 10% (2003: 5% to 10%) per annum	575	4,500
- guaranteed by outside parties and non-interest bearing	360	—
	43,277	71,692
	43,277	71,692

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

31. TRADE AND OTHER PAYABLES

The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 - 60 days	20,703	41,122
61 - 90 days	1,466	1,275
Over 90 days	14,941	3,450
	37,110	45,847
	37,110	45,847

32. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	26	26	19	19
Between one to two years	25	26	18	19
Between two to five years	—	25	—	19
	51	77	37	57
Less: Future finance charges	(14)	(20)	—	—
Present value of lease obligations	37	57	37	57
	37	57	37	57
Less: Amount due within one year shown under current liabilities			(19)	(19)
Amount due after one year			18	38
			18	38

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

33. SECURED BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
The amounts represent:		
Bank loans	298,629	337,816
Import loans	2,916	—
Other loan	—	4,000
	301,545	341,816
Less: Amount due within one year shown under current liabilities	(150,420)	(161,483)
Amount due after one year	151,125	180,333
The borrowings bear interest at prevailing market rates and are repayable as follows:		
Within one year	150,420	161,483
Between one to two years	82,504	60,483
Between two to five years	68,621	117,529
After five years	—	2,321
	301,545	341,816

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

34. SHARE CAPITAL

	<i>Notes</i>	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 April 2002		0.01	300,000,000,000	3,000,000
On consolidation of shares	(a)		(270,000,000,000)	—
At 31 March 2003 and 31 March 2004		0.10	<u>30,000,000,000</u>	<u>3,000,000</u>
Issued and fully paid:				
At 1 April 2002		0.01	2,206,122,318	22,061
On consolidation of shares	(a)		(1,985,510,087)	—
		0.10	220,612,231	22,061
Rights issue of shares at a price of HK\$0.12 per rights share	(b)	0.10	661,836,693	66,184
At 31 March 2003 and 31 March 2004		0.10	<u>882,448,924</u>	<u>88,245</u>

Notes:

- (a) As announced by the Company on 17 July 2002, the Company proposed to effect the share consolidation pursuant to which every ten issued and unissued then existing shares were consolidated into one consolidated share. Details of the share consolidation are set out in the circular dated 31 July 2002 issued by the Company. Ordinary resolutions approving the share consolidation were passed at the special general meeting of the Company held on 22 August 2002.
- (b) Rights issue of 661,836,693 shares of HK\$0.10 each at a subscription price of HK\$0.12 per rights share were allotted on 9 September 2002 to the shareholders of the Company in the proportion of three rights shares for every existing share then held.

The net proceeds of the rights issue was applied for repayment of part of the Group's bank loans, for financing the development of properties in Hong Kong and for general working capital purposes. All shares issued rank *pari passu* with the then existing shares in issue in all respects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES

(a) Share option scheme of the Company:

The Company has a share option scheme approved at the special general meeting of the Company held on 18 February 2002 (the "Scheme"). Under the Scheme the directors of the Company may at their discretion grant options to executive directors and full time employees of the Company, its subsidiaries, associated companies, controlling shareholders, business partners, joint venture partners, contractors, agents, representatives, suppliers, customers, landlords, tenants, advisers or consultants to subscribe for shares in the Company.

The Scheme is for the primary purpose of attracting, retaining and motivating talented employees, providing participants of the Scheme with opportunity to acquire proprietary interests in the Company and encouraging participants as incentives to work towards enhancing the value of the Company and as rewards for the participants' contribution and potential contribution to the Group. The Scheme will expire on 18 February 2012.

The total number of shares in respect of which options may be granted under the Scheme can be increased by not exceeding 10% of the shares of the Company in issue as at the date of the shareholders' approval. The overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Scheme and other share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

Each grant of options to any director, chief executive or substantial shareholder of the Company, or any of their respective associates, shall be subject to the approval of the independent non-executive directors of the Company. Where any grant of options to a substantial shareholder or an independent non-executive directors of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted or to be granted to such person in the 12-month period representing in aggregate over 0.1% of the shares in issue and having an aggregate value, based on the closing price of the shares, in excess of HK\$5,000,000, such further grant of options shall be subject to shareholders' approval with the connected persons of the Company abstaining from voting.

Subject to the aforesaid, the total number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the limit shall be subject to shareholders' approval with such grantee abstaining from voting.

The offer of the grant of options must be taken up within 30 days from the date of offer. Consideration for each grant of HK\$1 is payable to the Company. Options granted under the Scheme will entitle the holder to subscribe for shares within ten years from the date the option is granted. The subscription price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares on the date of offer. Unless otherwise determined by the directors of the Company, there is no minimum period for which an option must be held before it can be exercised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES - *continued*

(a) Share option scheme of the Company: - *continued*

A summary of the movements of share options granted during the year ended 31 March 2004 is as follows:

Grantee	Date of grant	Exercise period	Exercise price HK\$	Number of share options			Share price at grant date of options (Note) HK\$
				At 1 April 2003	Granted during the year	At 31 March 2004	
Employees	20 February 2004	20 February 2004 to 19 August 2004	0.144	—	88,000,000	88,000,000	0.143

No share options have been granted to the directors of the Company during the year.

A summary of the movements of share options granted during the year ended 31 March 2003 is as follows:

Grantee	Date of grant	Exercise period	Exercise price HK\$	Number of share options (adjusted as appropriate)				Share price at grant date of options (Note) HK\$	
				At 1 April 2002	Granted during the year	Lapsed during the year	At 31 March 2003		
Directors	19 June 2002	19 June 2002 to 18 October 2002	0.067	—	11,030,000	(11,030,000)	—	—	0.062
			0.670*	—	—	1,103,000	—	—	
			0.336*	—	—	4,412,000	(4,412,000)	—	
Employees	19 June 2002	19 June 2002 to 18 October 2002	0.067	—	99,270,000	(99,270,000)	—	—	0.062
			0.670*	—	—	9,927,000	—	—	
			0.336*	—	—	39,708,000	(39,708,000)	—	

* The number of share options and the corresponding exercise price have been adjusted as a result of consolidation and rights issue of shares of the Company during the year ended 31 March 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES - *continued*

(a) Share option scheme of the Company: - *continued*

No share options have been exercised during both years.

The Company received notional consideration for options granted during both years.

Note: The share price at grant date of options shown in the above tables represents the closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange on the trading day immediately preceding the date of offer of the options.

(b) Share option schemes of Asia Alliance:

Asia Alliance became a subsidiary of the Company with effect from 28 January 2003 and became an associate in December 2003.

On 21 August 1991, Asia Alliance approved a share option scheme (the "1991 Share Option Scheme") which was terminated by an ordinary resolution of its shareholders at the annual general meeting held on 22 May 2001 but the subsisting options granted thereunder prior to its termination remain valid and exercisable in accordance with the terms of the 1991 Share Option Scheme.

On 22 May 2001, Asia Alliance approved a share option scheme (the "2001 Share Option Scheme") which was terminated by an ordinary resolution of its shareholders at the annual general meeting held on 6 June 2002 but the subsisting options granted thereunder prior to the termination remain valid and exercisable in accordance with the terms of the 2001 Share Option Scheme.

On 6 June 2002, a new share option scheme (the "2002 Share Option Scheme") was approved by the shareholders of Asia Alliance. Under the terms of the 2002 Share Option Scheme, the board of directors of Asia Alliance may, at their discretion, grant options to any employee (full-time and part-time), director, supplier, consultant or advisor of any member of Asia Alliance Group to subscribe for shares in Asia Alliance subject to the terms and conditions stipulated therein. No share options have been granted under the 2002 Share Option Scheme since its adoption.

The 2002 Share Option Scheme is for the purpose of providing incentives and rewards to eligible participants who contribute to the success of Asia Alliance Group's operations.

The maximum number of shares which may be issued under the 2002 Share Option Scheme must not (when aggregate with any shares subject to any other share option scheme of Asia Alliance) exceed 10% of the shares in issue at the date of adoption of the 2002 Share Option Scheme.

The maximum number of shares issuable under share options to each eligible participant in the 2002 Share Option Scheme within any 12-month period, is limited to 1% of the shares of Asia Alliance in issue at any time. Any further grant to share options in excess of this limit is subject to shareholders' approval in a general meeting of Asia Alliance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES - *continued*

(b) Share option schemes of Asia Alliance: - *continued*

The exercise period of the share options granted is determined by the board of directors of Asia Alliance, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the option. The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

The exercise price in respect of any particular option of the 2002 Share Option Scheme may be determined by the board of directors of Asia Alliance in their absolute discretion and notified to each offeree but may not be less than the highest of (i) the closing price of Asia Alliance's shares on the date of offer, which must be a business day; (ii) the average closing price of Asia Alliance's shares for the five business days immediately preceding the date of offer; and (iii) the nominal value of Asia Alliance's shares on the date of offer.

The 2002 Share Option Scheme is valid during the period of 10 years commencing 6 June 2002, unless otherwise cancelled or amended.

A summary of the movements of share options granted to employees of Asia Alliance during the year ended 31 March 2004 is as follows:

Date of grant	Exercise period	Exercise price HK\$ (note iii)	Number of share options (adjusted as appropriate)				Share price at grant date of options HK\$ (note iv)
			At 1 April 2003	Adjustments *	Lapsed during the year	At 31 March 2004	
2 August 2000 (note i)	2 August 2001 to 1 August 2010	0.75	595,000	(245,000)	(350,000)	—	0.80
		20.00*	—	9,187	(1,687)	—	—
		3.333*	—	(7,500)	—	—	—
				45,000	—	45,000	—
26 March 2001 (note i)	26 March 2002 to 25 March 2011	0.385	725,000	(275,000)	(450,000)	—	0.39
		10.267*	—	10,312	(937)	—	—
		1.711*	—	(9,375)	—	—	—
				56,250	—	56,250	—
31 August 2001 (note i)	31 August 2002 to 30 August 2011	0.4032	1,928,000	(1,128,000)	(800,000)	—	0.50
		10.752*	—	42,300	(2,625)	—	—
		1.792*	—	(39,675)	—	—	—
				238,050	—	238,050	—
31 August 2001 (note ii)	31 August 2001 to 30 August 2011	0.4032	25,000,000	(25,000,000)	—	—	0.50
		10.752*	—	937,500	—	—	—
		1.792*	—	(937,500)	—	—	—
				5,625,000	—	5,625,000	—
			<u>28,248,000</u>	<u>(20,678,451)</u>	<u>(1,605,249)</u>	<u>5,964,300</u>	

* The number of share options and the corresponding exercise price have been adjusted as a result of share consolidation and rights issue of shares of Asia Alliance during the year ended 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES - *continued*

(b) Share option schemes of Asia Alliance: - *continued*

A summary of the movements of share options granted to employees of Asia Alliance during the year ended 31 March 2003 is as follows:

Date of grant	Exercise period	Exercise price HK\$ (note iii)	Number of share options			Share price at grant date HK\$ (note iv)
			At 1 April 2002	Lapsed during the year	At 31 March 2003	
2 August 2000 (note i)	2 August 2001 to 1 August 2010	0.7500	3,475,000	(2,880,000)	595,000	0.800
6 October 2000 (note i)	6 October 2001 to 5 October 2010	0.4700	1,540,000	(1,540,000)	—	0.560
26 March 2001 (note i)	26 March 2002 to 25 March 2011	0.3850	6,875,000	(6,150,000)	725,000	0.390
31 August 2001 (note i)	31 August 2002 to 30 August 2011	0.4032	12,736,000	(10,808,000)	1,928,000	0.500
31 August 2001 (note ii)	31 August 2001 to 30 August 2011	0.4032	25,000,000	—	25,000,000	0.500
			49,626,000	(21,378,000)	28,248,000	

Notes:

- (i) The vesting period is the period of three years after the date of grant. One-third of the share options become exercisable after 12 months from the date of grant, and after the subsequent 18 months, 24 months, 30 months and 36 months from the date of grant, further one-sixth of the options become exercisable.
- (ii) The vesting period is the period from the date of grant to six months after the date of grant. Half of the share options are exercisable from the date of grant and the remaining half becomes exercisable after 6 months from the date of grant.
- (iii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of Asia Alliance.
- (iv) The share price at grant date of options represents the closing price of shares of Asia Alliance as stated on the daily quotations sheets issued by the Stock Exchange on the trading day immediately preceding the date of grant of the options.

No share options have been granted or exercised during both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. SHARE OPTION SCHEMES - *continued*

(b) Share option schemes of Asia Alliance: - *continued*

The financial impact of share options granted by the Company is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

36. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1 April 2002	1,103,894	895,932	48,369	(1,740,963)	307,232
Premium arising from issue of new shares during the year	13,237	—	—	—	13,237
Net loss for the year	—	—	—	(58,343)	(58,343)
At 31 March 2003	1,117,131	895,932	48,369	(1,799,306)	262,126
Net profit for the year	—	—	—	13,798	13,798
At 31 March 2004	<u>1,117,131</u>	<u>895,932</u>	<u>48,369</u>	<u>(1,785,508)</u>	<u>275,924</u>

The capital reserve of the Company and the Group represents the credit arising from the reduction of the share capital of the Company in 1999 and 2002.

The contributed surplus of the Company represents the difference between the value 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 in 1995.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

36. RESERVES - *continued*

Under the 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:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company has no distributable reserve at the balance sheet date of both years.

The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital and share premium of the companies now forming the Group pursuant to the group reorganisation prior to the listing of the Company's shares in 1995.

At 31 March 2004, the accumulated losses of the Group include losses of HK\$3,919,000 (2003: nil) attributable to the associates.

37. DEFERRED TAXATION

Major deferred tax liabilities and assets recognised and movements thereon are as follows:

	THE GROUP		
	Accelerated tax depreciation	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002			
- as previously reported	—	—	—
- prior period adjustment on adoption of SSAP 12 (Revised) (<i>see note 2</i>)	963	(651)	312
- as restated	963	(651)	312
Charge (credit) to the income statement	949	(1,036)	(87)
At 31 March 2003	1,912	(1,687)	225
Charge (credit) to the income statement	2,375	(2,111)	264
Effect of change in tax rate			
- charge (credit) to the income statement	179	(158)	21
At 31 March 2004	<u>4,466</u>	<u>(3,956)</u>	<u>510</u>

For the purposes of balance sheet presentation, the above deferred tax liabilities and assets have been offset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

37. DEFERRED TAXATION - *continued*

At the balance sheet date, deductible temporary differences not recognised in the financial statements were analysed into:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Tax losses	320,831	360,261
Accelerated accounting depreciation	109,523	132,461
Miscellaneous allowance	8,784	2,963
	<hr/> 439,138 <hr/>	<hr/> 495,685 <hr/>

At 31 March 2004, the Group has unused tax losses of HK\$343,437,000 (2003: HK\$370,805,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$22,606,000 (2003: HK\$10,544,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$320,831,000 (2003: HK\$360,261,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely except losses of HK\$15,202,000 (2003: HK\$3,984,000) which will expire as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Year of expiry		
2022	1,821	1,821
2023	2,163	2,163
2024	11,218	—
	<hr/> 15,202 <hr/>	<hr/> 3,984 <hr/>

Other deductible temporary differences of HK\$118,307,000 (2003: HK\$135,424,000) have not been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At 31 March 2004, the Company has unused tax losses of HK\$3,934,000 (2003: HK\$8,552,000) available for offset against future profit. No deferred tax asset has been recognised due to the unpredictability of future profits streams.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

38. ACQUISITION OF A SUBSIDIARY/SUBSIDIARIES

During the year ended 31 March 2004, the Group acquired an additional interest of 45% of the issued share capital of Vector Entertainment Corporation ("Vector") for a cash consideration of approximately HK\$1.0 million. Vector was previously a jointly controlled entity of the Group in which the Group had a 45% equity interest amounting to HK\$954,000. Acquisition of the subsidiary was accounted for by the acquisition method of accounting.

During the year ended 31 March 2003, the Group acquired 55.3% of the issued share capital of Asia Alliance and the entire equity interest of Victor Investment Limited for consideration of approximately HK\$6.1 million and HK\$18.7 million, respectively. Acquisition of these subsidiaries was accounted for by the acquisition method of accounting. The goodwill of HK\$7,194,000 arising as a result of the acquisition was charged to the consolidated income statement in year 2003 as the estimated recoverable amount from business operation of the subsidiaries acquired was less than the carrying amount. The recoverable amount from business operations was estimated based on cashflow forecast discounted at market borrowing rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

38. ACQUISITION OF A SUBSIDIARY/SUBSIDIARIES - *continued*

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Property, plant and equipment	—	4,947
Investment properties	—	29,951
Interests in jointly controlled entities	—	1,253
Inventories	—	137
Trade and other receivables	—	36,432
Amounts due from shareholders	1,131	—
Bank balances and cash	971	1,732
Trade and other payables	—	(40,107)
Amount due to a jointly controlled entity	—	(1,234)
Bank loans	—	(10,779)
Minority interests	(209)	(1,579)
	<u>1,893</u>	<u>20,753</u>
Goodwill on acquisition	104	7,194
	<u>1,997</u>	<u>27,947</u>
Total consideration		
Satisfied by:		
Cash	1,043	24,758
Reclassification of interest in a jointly controlled entity	954	—
Expenses incurred in connection with acquisitions	—	3,189
	<u>1,997</u>	<u>27,947</u>
Net cash outflow arising on acquisition:		
Cash consideration paid	(1,043)	(24,758)
Expenses incurred in connection with acquisitions	—	(3,189)
Bank balances and cash acquired	971	1,732
	<u>(72)</u>	<u>(26,215)</u>
Net cash outflow of cash and cash equivalents in respect of the purchase of a subsidiary/subsidiaries		

The subsidiary acquired during the year ended 31 March 2004 did not have any significant impact on the results and cash flows of the Group.

The subsidiaries acquired during the year ended 31 March 2003 contributed HK\$3,406,000 to the Group's turnover and incurred loss from operations of HK\$10,039,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

39. DISPOSAL OF A SUBSIDIARY

	2004	2003
	HK\$'000	HK\$'000
Net assets disposed of:		
Other investments	20,000	—
Gain on disposal of a subsidiary	63,950	—
	<hr style="border: none; border-top: 1px solid black;"/>	<hr style="border: none; border-top: 1px solid black;"/>
	83,950	—
	<hr style="border: none; border-top: 3px double black;"/>	<hr style="border: none; border-top: 3px double black;"/>
Satisfied by:		
Cash consideration		
- Cash received	5,000	—
- Consideration receivable	79,000	—
Expenses incurred in connection with the disposal of a subsidiary	(50)	—
	<hr style="border: none; border-top: 1px solid black;"/>	<hr style="border: none; border-top: 1px solid black;"/>
	83,950	—
	<hr style="border: none; border-top: 3px double black;"/>	<hr style="border: none; border-top: 3px double black;"/>
Net cash inflow of cash and cash equivalents in respect of the disposal of a subsidiary:		
Cash received	5,000	—
Expenses incurred in connection with the disposal of a subsidiary	(50)	—
	<hr style="border: none; border-top: 1px solid black;"/>	<hr style="border: none; border-top: 1px solid black;"/>
	4,950	—
	<hr style="border: none; border-top: 3px double black;"/>	<hr style="border: none; border-top: 3px double black;"/>

The subsidiary disposed of during the year did not have any significant impact on the results and cash flows of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

40. DEEMED DISPOSAL OF A SUBSIDIARY

	2004 HK\$'000	2003 HK\$'000
Net liabilities released:		
Property, plant and equipment	1,193	—
Interests in associates	20	—
Inventories	282	—
Trade and other receivables	4,440	—
Bank balances and cash	17,822	—
Secured other loan	(4,000)	—
Trade and other payables	(3,881)	—
Loan from a related company	(21,270)	—
Minority interests	(15,935)	—
	<u>(21,329)</u>	<u>—</u>
Gain on deemed disposal of a subsidiary	19,317	—
	<u>(2,012)</u>	<u>—</u>
Represented by:		
Interests in associates - share of net liabilities	(2,012)	—
	<u>(17,822)</u>	<u>—</u>
Cash outflow of cash and cash equivalents in connection with the deemed disposal of a subsidiary:		
Bank balances and cash disposal of	(17,822)	—
	<u>(17,822)</u>	<u>—</u>

The results and cashflows of the subsidiary deemed to be disposed of during the year are set out in note 6(a).

41. PLEDGE OF ASSETS

At 31 March 2004, leasehold land and buildings, and investment properties with carrying amount of HK\$9,558,000 and HK\$478,400,000, respectively, have been pledged to banks to secure the bank borrowings granted to the Group.

At 31 March 2003, leasehold land and buildings, investment properties and properties held for sale with carrying amount of HK\$9,753,000, HK\$451,900,000 and HK\$89,500,000, respectively, have been pledged to banks to secure the bank borrowings granted to the Group. In addition, the entire issued capital of i100 Wireless Corporation, a then non wholly-owned subsidiary of the Company, has been pledged to an outside party to secure the other loan granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

42. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	5,719	13,460	—	—
Corporate guarantees given to banks in respect of credit facilities granted to subsidiaries	—	—	301,545	337,816
	<u>5,719</u>	<u>13,460</u>	<u>301,545</u>	<u>337,816</u>

43. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
- acquisition of property, plant and equipment	—	3,085
- capital injection for interests in jointly controlled entities and non wholly-owned subsidiaries	—	24,342
	<u>—</u>	<u>27,427</u>

The Company had no significant capital commitments at the balance sheet date.

44. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments recognised in the consolidated income statement during the year	<u>3,164</u>	<u>2,992</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

44. OPERATING LEASE ARRANGEMENTS - *continued*

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	3,993	4,009
In the second to fifth year inclusive	7,952	8,292
After five years	1,795	2,693
	13,740	14,994
	13,740	14,994

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for an average term of two to ten years.

Under the leases entered into by the Group, the lease payments are fixed and no arrangements have been entered into for contingent rental payments.

The Group as lessor

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Property rental income earned during the year	23,074	19,056
Less: Outgoings	(703)	(558)
Net rental income	22,371	18,498
	22,371	18,498

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	21,448	14,378
In the second to fifth year inclusive	18,451	14,492
	39,899	28,870
	39,899	28,870

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

44. OPERATING LEASE ARRANGEMENTS - *continued*

Under the leases entered into by the Group, the rental payments are fixed and no arrangements have been entered into for contingent rental payments. The properties held have committed tenants for a term of one to three years.

The Company had no significant lease commitments at the balance sheet date.

45. RETIREMENT BENEFITS SCHEMES

The Group had defined contribution retirement scheme (the "Retirement Scheme") for its employees and the assets of the Retirement Scheme are held under provident funds managed by independent trustees. With effect from 1 December 2000, the Retirement Scheme has become a "Top Up" scheme to supplement the minimum benefit under the mandatory provident fund scheme (the "MPF Scheme") for all the eligible employees of the Group in Hong Kong.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

The aggregate employers' contributions, net of forfeited contributions, which have been dealt with in the consolidated income statement were as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Gross employers' contributions	835	852
Less: Forfeited contributions utilised to offset employers' contributions for the year	(61)	(26)
Net employers' contributions charged to the consolidated income statement	774	826

At the balance sheet date, the total amount of forfeited contributions available to reduce the contributions payable in the future years was insignificant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

46. POST BALANCE SHEET EVENTS

The following events took place subsequent to 31 March 2004:

- (a) As announced by the Company on 11 May 2004, the Company proposed a rights issue of 441,224,462 rights shares of HK\$0.10 each at a subscription price of HK\$0.11 per rights share in the proportion of one rights share for every two shares held. Details of this are set out, inter alia, in the prospectus of the Company dated 7 June 2004.
- (b) As announced by the Company on 20 May 2004, the Company proposed a reduction in its authorised share capital from HK\$3,000,000,000 to HK\$1,000,000,000 by the diminution of 20,000,000,000 authorised but unissued shares of HK\$0.10 each. This proposal is subject to shareholders' approval at a special general meeting to be held on 28 July 2004. Details of this are set out, inter alia, in the circular of the Company dated 29 June 2004.
- (c) As announced by the Company on 26 July 2004, the Company proposed to effect the reductions of certain reserves of the Company as follow:
 - (i) the entire amount standing to the credit of the share premium account and the capital reserve account of the Company will be reduced; and
 - (ii) part of the credits arising from (i) above in the sum of HK\$1,785,508,000 will be applied to offset the accumulated losses of the Company as at 31 March 2004 in full and the remaining balance of HK\$227,555,000 will be transferred to the contributed surplus account of the Company.

The above proposal is subject to shareholders' approval at a special general meeting to be held prior to the forthcoming annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2004 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Cheong Ko Investment Company Limited	Hong Kong	Ordinary HK\$2 (Non-voting preferred HK\$10,000) *	—	100%	Property holding
Easyknit BVI Limited	British Virgin Islands/ Hong Kong	Ordinary US\$100	100%	—	Investment holding
Easyknit International Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100%	—	Investment holding
Easyknit International Trading Company Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Easyknit Properties Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1,000	100%	—	Investment holding
Easyknit Trading Company Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Golden Top Properties Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Grand Profit Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Janson Properties Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Landmark Profits Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100%	—	Investment holding
Mark Profit Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding and property development

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES - *continued*

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Mary Mac Apparel Inc.	USA	Common stock US\$200,000	—	100%	Garment distribution
Perfect Luck Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Planetic International Limited	Hong Kong	Ordinary HK\$2	—	100%	Finance company
Po Cheong International Enterprises Limited	Hong Kong	Ordinary HK\$90	—	100%	Investment holding
Victor Investment Limited	Hong Kong	Ordinary HK\$1,001	—	100%	Property holding
Wellmake Investments Limited	Hong Kong	Ordinary HK\$9,998 (Non-voting deferred HK\$2) *	—	100%	Property holding
東莞永耀漂染有限公司 ("Wing Yiu") **	PRC	Registered HK\$11,260,000	—	100%	Bleaching and dyeing

* The non-voting preferred shares of Cheong Ko Investment Company Limited and the non-voting deferred shares of Wellmake Investments Limited carry no rights to receive notice of, attend or vote at any general meeting and have very limited rights to participate in a distribution of profits and, on liquidation, to the repayment of the amount paid up on the shares.

** Wing Yiu is a wholly foreign owned enterprise established in the PRC, to be operated for ten years up to 20 August 2011.

The above table lists the subsidiaries of the Company, which, in the opinion of the directors of the Company, principally affected the results of the year or constituted a substantial portion of the assets of the Group. To give details of other subsidiaries would in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at 31 March 2004.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 March				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000 (Restated)	
Turnover	<u>676,028</u>	<u>659,887</u>	<u>694,262</u>	<u>687,652</u>	<u>706,044</u>
Profit (loss) before taxation	20,772	157,961	(5,318)	(7,094)	134,875
Taxation	<u>(5,768)</u>	<u>(14,650)</u>	<u>(5,254)</u>	<u>(21,044)</u>	<u>(2,459)</u>
Profit (loss) before minority interests	15,004	143,311	(10,572)	(28,138)	132,416
Minority interests	<u>17,294</u>	<u>—</u>	<u>1,173</u>	<u>3,267</u>	<u>8,414</u>
Net profit (loss) for the year	<u><u>32,298</u></u>	<u><u>143,311</u></u>	<u><u>(9,399)</u></u>	<u><u>(24,871)</u></u>	<u><u>140,830</u></u>

ASSETS AND LIABILITIES

	At 31 March				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000 (Restated)	
Total assets	1,160,619	773,672	845,844	959,763	1,041,132
Total liabilities	(961,750)	(427,658)	(374,402)	(434,414)	(373,917)
Minority interests	<u>(21,157)</u>	<u>—</u>	<u>705</u>	<u>1,036</u>	<u>—</u>
Shareholders' funds	<u><u>177,712</u></u>	<u><u>346,014</u></u>	<u><u>472,147</u></u>	<u><u>526,385</u></u>	<u><u>667,215</u></u>

Note: As set out in note 2 to the financial statements, the Group adopted SSAP 12 (Revised) during the year ended 31 March 2004. Comparative amounts for year 2003 have been restated accordingly. Comparative amounts for other years are not restated.

SUMMARY OF PROPERTIES

As at 31 March 2004

A. INVESTMENT PROPERTIES

Location	Purpose	Approximate gross area (sq. ft.)	Lease term
1. Easy Tower Nos. 609-611 Tai Nan West Street, Cheung Sha Wan, Kowloon	Industrial/ commercial	74,458	Medium
2. Shops 1, 2, 3 on Ground Floor together with showcase on Ground Floor, First Floor and Second Floor of Fa Yuen Plaza, Nos. 19 Fa Yuen Street, Mong Kok, Kowloon	Commercial	13,544	Medium
3. 6th Floor, Nos. 650-652 Castle Peak Road, and No. 18A Wing Hong Street, Kowloon	Industrial	11,000	Medium
4. 2nd Floor, Nos. 790, 792 and 794 Cheung Sha Wan Road, Kowloon	Industrial	3,600	Medium
5. Shop 19 on Ground Floor, The Annex Land Building of Excelsior Plaza, Nos. 24-26 East Point Road, Causeway Bay, Hong Kong	Commercial	278	Long
6. Shop 20 on Ground Floor and Shop 20 on First Floor, The Annex Land Building of Excelsior Plaza, Nos. 24-26 East Point Road, Causeway Bay, Hong Kong	Commercial	1,904	Long
7. Ground Floor, No. 50 Yun Ping Road, Causeway Bay, Hong Kong	Commercial	900	Long

SUMMARY OF PROPERTIES

As at 31 March 2004

A. INVESTMENT PROPERTIES - *continued*

Location	Purpose	Approximate gross area (sq. ft.)	Lease term
8. Ground Floor and Cockloft No. 31 Granville Road, Tsim Sha Tsui, Kowloon	Commercial	2,000	Medium
9. Shop on Ground Floor together with open yard at rear thereof and the exterior walls of the said shop and yard, No. 8 Yue Man Square, Kwun Tong, Kowloon	Commercial	1,220	Medium

B. PROPERTIES HELD FOR SALE

Location	Purpose	Approximate gross area (sq. ft.)	Percentage of interest	Lease term
Upper Floors Residential Units of Fa Yuen Plaza, No. 19 Fa Yuen Street, Mongkok, Kowloon	Residential	17,574	100%	Medium

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting (“AGM”) of Easyknit International Holdings Limited (the “Company”) will be held at Chater Room III, Function Room Level, The Ritz-Carlton, Hong Kong, 3 Connaught Road Central, Hong Kong on Monday, 23 August 2004, at 9:45 a.m. (or so soon thereafter as the special general meeting (“SGM”) of the Company convened at 9:30 a.m. at the same date and place shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolutions:

1. To receive, consider and adopt the audited financial statements and the reports of the directors and auditors for the year ended 31 March 2004.
2. To declare a final dividend for the year ended 31 March 2004 (declaration of dividend subject to the passing of a special resolution at the SGM in relation to the extinguishment of the accumulated losses of the Company).
3. To re-elect directors and to authorise the board of directors to fix the directors’ remuneration.
4. To re-appoint Deloitte Touche Tohmatsu as the auditors of the Company and to authorise the board of directors to fix their remuneration.
5. As special business, to consider and, if thought fit, pass (with or without amendments) the following resolutions as ordinary resolutions:

(A) **“THAT:**

- (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements or options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements or options which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), (ii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company, or (iii) the exercise of any option granted under the share option scheme of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and
- (d) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or

NOTICE OF ANNUAL GENERAL MEETING

- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

(B) **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws and regulations, the bye-laws of the Company and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company to be purchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and
- (c) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

NOTICE OF ANNUAL GENERAL MEETING

(C) **“THAT** , subject to the passing of resolutions numbered 5(A) and numbered 5(B) above, the authority granted to the directors of the Company pursuant to resolution numbered 5(A) above be and is hereby extended by the addition to the aggregate nominal amount of share capital which may be allotted or agreed conditionally or unconditionally to be allotted pursuant to such authority an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to resolution numbered 5(B), provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution.”

By Order of the Board of
Easyknit International Holdings Limited
KOON, Wing Yee

President and Chief Executive Officer

Hong Kong, 30 July 2004

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend the meeting. A proxy need not be a member of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, then one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed or a notorially certified copy of that power or authority, must be deposited at the Company's principal place of business in Hong Kong at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.
4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting convened by the above notice or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
5. The Register of Members of the Company will be closed from Wednesday, 18 August 2004 to Monday, 23 August 2004 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all share transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Secretaries Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on Tuesday, 17 August 2004.
6. Concerning Resolutions 5(A), 5(B) and 5(C), the directors of the Company wish to state that there is no immediate plans to issue any new shares or to repurchase any shares of the Company. The general mandates are being sought from shareholders in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the applicable laws of Bermuda.
7. A circular containing further information concerning the re-election of directors and Resolutions 5(A), 5(B) and 5(C) will be sent to shareholders together with the Company's 2004 Annual Report.