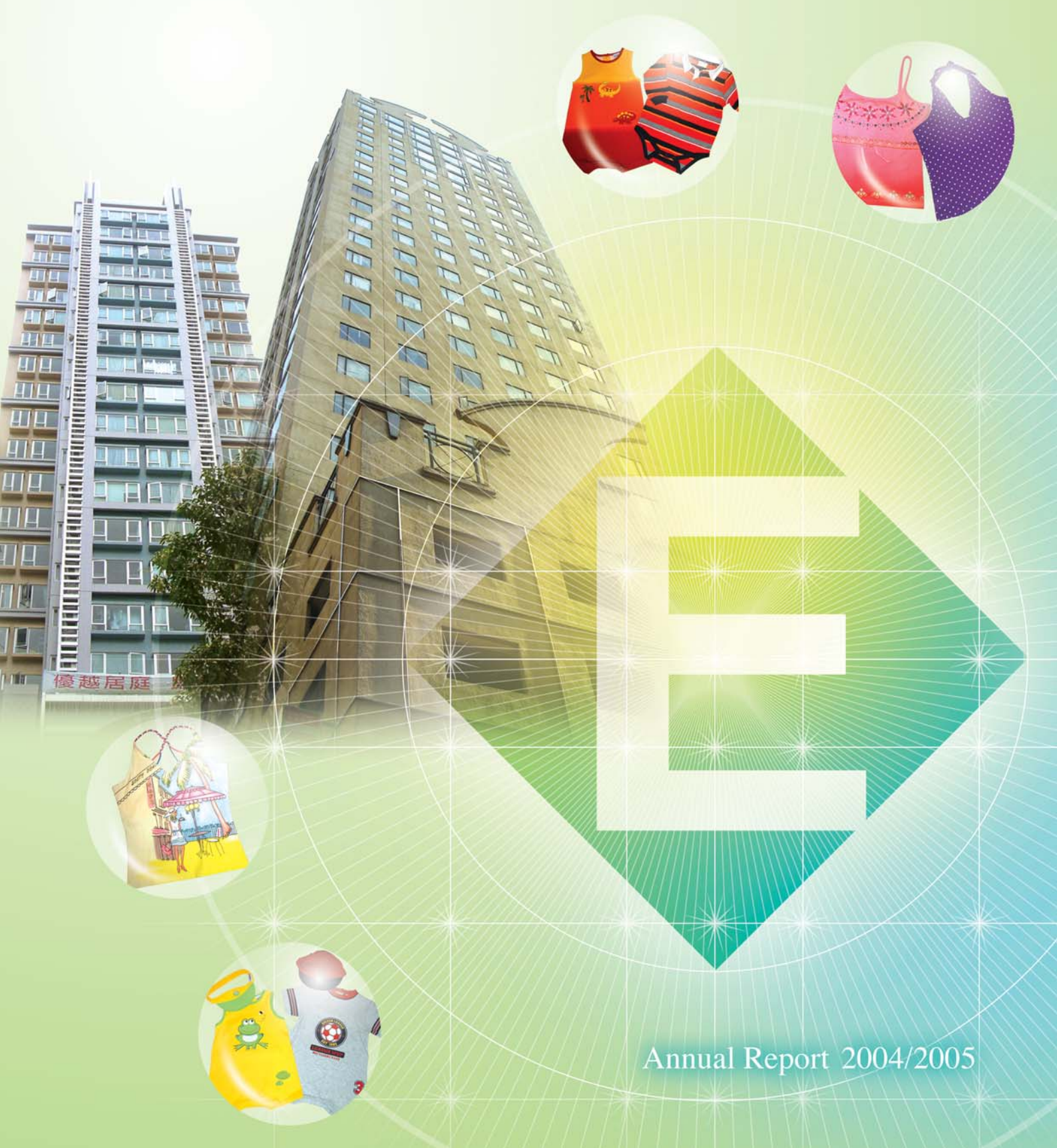




EASYKNIT INTERNATIONAL HOLDINGS LIMITED
永義國際集團有限公司



Annual Report 2004/2005



CONTENTS

2	Corporate Information
3	President's Statement and Management Discussion and Analysis
9	Biographical Details of Directors and Senior Management
11	Report of the Directors
19	Report of the Auditors
20	Consolidated Income Statement
21	Consolidated Balance Sheet
23	Balance Sheet
24	Consolidated Statement of Changes in Equity
25	Consolidated Cash Flow Statement
27	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. Tsui Chun Kong

Mr. Jong Koon Sang

AUDIT COMMITTEE

Mr. Wong Sui Wah Michael (*Chairman*)

Mr. Tsui Chun Kong

Mr. Jong Koon Sang

REMUNERATION COMMITTEE

Mr. Koon Wing Yee (*Chairman*)

Mr. Tsang Yiu Kai

Mr. Wong Sui Wah Michael

Mr. Tsui Chun Kong

Mr. Jong Koon Sang

EXECUTIVE COMMITTEE

Mr. Koon Wing Yee (*Chairman*)

Mr. Tsang Yiu Kai

Ms. Lui Yuk Chu

COMPANY SECRETARY

Mr. Tsang Yiu Kai

QUALIFIED ACCOUNTANT

Mr. Tsang Yiu Kai

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

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

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) 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

On behalf of the board of directors (the "Board") of Easyknit International Holdings Limited (the "Company"), I am pleased to announce the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 March 2005.

FINANCIAL RESULTS

For the year under review, the Group recorded a turnover of approximately HK\$590,001,000, down approximately 16.4% from last year (2004: approximately HK\$706,044,000). The decrease was mainly attributable to the change in product mix of the Group to sell more garments for infants, the selling price of which was around 57.1% lower than that of the garments for women, and downward price adjustment of the Group's textile products as a result of the elimination of the quota costs in January 2005. The disposal of its bleaching and dyeing business in May 2004 also led to the decline in turnover.

Gross profit fell approximately 6.7% to approximately HK\$128,820,000 (2004: approximately HK\$138,086,000), however, profit margin improved by approximately 11.2% to approximately 21.8% (2004: approximately 19.6%), primarily due to the sale of more infant wear, which generated a higher margin than selling ladies wear. The Group's infant products are mainly sold to the American chain stores and department stores.

Profit from operations rocketed more than 4.6 times to approximately HK\$352,783,000 (2004: approximately HK\$62,568,000) and net profit attributable to shareholders surged 1.5 times to approximately HK\$356,353,000 (2004: approximately HK\$140,830,000), which resulted largely from the reversal of deficit arising on revaluation of investment properties amounting to approximately HK\$140,690,000, unrealised gain on other investments amounting to approximately HK\$158,579,000, gain of approximately HK\$14,149,000 on the disposal of Po Cheong International Enterprises Limited ("Po Cheong"), a then wholly-owned subsidiary of the Company, share of results of associates of approximately HK\$2,876,000 and reduction in finance costs. Earnings per share rose significantly by approximately 76.5% to approximately HK\$0.293 (2004: approximately HK\$0.166).

Cost of sales went down by approximately 18.8% to approximately HK\$461,181,000 (2004: approximately HK\$567,958,000), reflecting the corresponding changes in the product mix and disposal of the bleaching and dyeing business. Coupled with stringent cost control measures, the total operating expenses reduced by approximately 25.2% to approximately HK\$80,433,000 (2004: approximately HK\$107,481,000).

Finance costs dropped by approximately 54.6% to approximately HK\$3,566,000 (2004: approximately HK\$7,855,000), principally by reason of repayment of certain bank loans totalled approximately HK\$128,081,000 as well as the low interest rate level for the year under review.

BUSINESS REVIEW

During the year ended 31 March 2005, the Group was principally engaged in sourcing and exporting of cotton-based knitted garments for infants, children and women and property investment after the disposal of its bleaching and dyeing business in May 2004.



PRESIDENT'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

Garment sourcing and export

During the year under review, garment sourcing and export continued to be the principal business of the Group and contributed approximately 88.1% to the Group's total turnover, an approximately 4.4% increase over last year (2004: approximately 83.7%). The Group has altered its product mix to produce more infant garments to cater for the changes in customer needs. The product mix of infant wear and ladies wear was 35:56 during the year under review as compared to 24:67 of last year. Turnover from this segment diminished by approximately 12.1% to approximately HK\$519,490,000 (2004: approximately HK\$590,885,000), which was largely due to the relatively lower selling price of the infant wear and the reduction of sales amount of the "Mary Mac" brand name products, predominately resulting from the change in management of the regional office in the United States of America (the "US") during the year under review. This segment generated a profit of approximately HK\$23,667,000 (2004: approximately HK\$36,169,000).

Geographically, the US continued to be the Group's major export market, accounting for approximately 79.5% of the Group's total turnover (2004: approximately 74.5%). The remaining contribution from this segment was generated from sales to customers located in Europe, Mexico and Canada.

Property investment

The property segment contributed approximately 10.8% to the Group's turnover, amounting to approximately HK\$63,535,000 (2004: approximately 8.1% or HK\$57,498,000). Benefited from the growth of the Hong Kong property market during the year under review, profits from this segment shot up nearly 1.9 times to approximately HK\$169,889,000 (2004: approximately HK\$59,130,000). Investment properties, all of which are located in Hong Kong, provided a steady income to the Group with a turnover of approximately HK\$24,345,000 (2004: approximately HK\$23,074,000). The average rental income increased nearly 6%. As at 31 March 2005, the Group's commercial rental properties were 100% leased. Its industrial rental properties also maintained a high occupancy rate of over 80%. The building management fee income during the year was approximately HK\$173,000 (2004: Nil).

The sale of residential units of Fa Yuen Plaza in Mongkok was well-received and generated approximately HK\$39,017,000 cash inflow to the Group during the year under review (2004: approximately HK\$34,424,000). As at 31 March 2005, approximately 81% of the available units were sold with the average selling price per square foot gross floor area increased from approximately HK\$3,300 to approximately HK\$3,500 for the year under review.

As at 31 March 2005, the Group's entire property portfolio stood over approximately HK\$641,594,000 (31 March 2004: approximately HK\$535,966,000).

PROSPECTS

Garment sourcing and export

To stem a rising tide of the Chinese textile imports following the lifting of the global trade quotas on textiles on 1 January 2005, the US, in May 2005, imposed safeguard quotas limiting the increase in 7 categories of Chinese textile imports to 7.5% this year by relying upon the terms of the accession of the People's Republic of China (the "PRC") to World Trade Organisation (the "WTO"). The PRC abolished its self-imposed export tariffs on 81 categories of textile products in June 2005, escalating trade tensions with the US. In June 2005, the European Union (the "EU") and the PRC also agreed to limit the growth of 10 categories of Chinese textile products to the EU to between 8% and 12.5% a year until the end of 2007. These safeguard measures have created uncertainties in the textile industry and may in turn impact the business of the Group. We will constantly monitor the market conditions and adjust accordingly.

PRESIDENT'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS



The Group will continue to strengthen its well-developed sales network and business relationship with its clients and promote its brand name of "Mary Mac" targeting the fast growing PRC market through its regional office in New York. The Group would increase the portion of sales of the infant wear with higher profit margin so as to raise its profitability.

Property investment

Despite rising interest rates, the Group is optimistic about the outlook of the local property market owing to the improvement in both consumer and investor sentiment, mainly brought about by the encouraging land auction results, implementation of the Closer Economic Partnership Agreement and further extension of the "Individual Visit Scheme" for Mainland visitors.

As announced by the Company on 22 February 2005, two subsidiaries of the Company as vendors and Ms. Wong Ching Man or her nominee(s) as purchaser entered into two provisional agreements for the disposal of Shop Unit No. 19 on Ground Floor (the "Property 1") and Shop Unit No. 20 on Ground Floor and Shop Unit No. 20 on the First Floor (the "Property 2") of The Annex Land Building of Excelsior Plaza, Causeway Bay, Hong Kong (together the "Properties") at a consideration of HK\$220,000,000 in aggregate. With the upturn in Hong Kong's property market, the directors consider that it is a good opportunity for the Group to dispose of the Properties at a gain of approximately HK\$86,000,000 (before taxation and related expenses). The disposal of the Properties, which is expected to be completed on or before 3 August 2005, was approved by the shareholders of the Company at a special general meeting held on 22 April 2005. Details of this are set out in the circular of the Company dated 6 April 2005.

Apart from the Properties, the Group is currently holding other properties for rental purposes. Rental income from these properties is expected to rise, especially for the retail shops located in prime areas such as Causeway Bay, Tsimshatsui and Mongkok. Also, as the mortgage of the Property 2 will be repaid after its disposal, the Group will be able to save the expenses on interest of the mortgage and improve its gearing ratio as a whole. It is believed that the sales of the remaining units of the Fa Yuen Plaza will continue to contribute to the Group's revenue. The Group will prudently seek opportunities for property investment or development in order to benefit from the growing economy and to enhance the shareholders' returns.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 March 2005, the Group financed its operations mainly by net proceeds from the disposal of subsidiaries and the issue of rights shares in 2004, internally generated resources and bank borrowings. As at 31 March 2005, the Group's total bank borrowings (but excluding obligations under finance leases) declined by approximately 37.9% to approximately HK\$187,349,000 (31 March 2004: approximately HK\$301,545,000), of which approximately 64.6% being short-term borrowings and approximately 35.4% being long-term borrowings. All the loans are secured and denominated in Hong Kong dollars with prevailing market interest rates. The Group's borrowings are mostly event driven, with little seasonality. As at 31 March 2005, the shareholders' fund of the Group amounted to approximately HK\$1,065,484,000 (31 March 2004: approximately HK\$667,215,000). The Group's gearing ratio, which was calculated based on the total borrowings to the shareholders' fund, decreased substantially from approximately 0.45 as at 31 March 2004 to approximately 0.18 as at 31 March 2005.



PRESIDENT'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to sustain a good liquidity position. As at 31 March 2005, the Group had net current assets of approximately HK\$472,509,000 (31 March 2004: approximately HK\$277,992,000) and cash and cash equivalents of approximately HK\$83,901,000 (31 March 2004: approximately HK\$67,357,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and US dollars. As at 31 March 2005, the Group's current ratio was approximately 3.43 (31 March 2004: approximately 2.25), which was calculated on the basis of current assets of approximately HK\$667,042,000 (31 March 2004: approximately HK\$500,256,000) to current liabilities of approximately HK\$194,533,000 (31 March 2004: approximately HK\$222,264,000). The improvement in the current ratio was mainly due to the proceeds received from the disposal of subsidiaries and issue of rights shares during the year, which not only reduced the Group's liabilities but also raised its level of current assets. During the year under review, the Group serviced its debts primarily through the proceeds from the rights issue conducted in 2004.

The directors believe that the Group has sufficient financial resources for its operations.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Group's revenues and payments are in Hong Kong dollars and US dollars. As the Hong Kong dollars are pegged to the US dollars, the Group had no significant exposure to fluctuations in exchange rates during the year under review. Hence, no financial instrument for hedging purposes was employed.

CAPITAL STRUCTURE

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 on the basis of one rights share for every two shares held. As a result of the rights issue, the issued share capital of the Company has been increased from HK\$88,244,892.4 to HK\$132,367,338.6 comprising 1,323,673,386 shares of HK\$0.10 each with effect from 24 June 2004. The Company raised approximately HK\$47,500,000 (net of expenses), out of which approximately HK\$40,000,000 has been used to repay the Group's bank borrowings and the balance was applied as general working capital. Details of the rights issue are set out in the prospectus of the Company dated 7 June 2004.

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. A special resolution in respect of the proposed reduction was passed at the special general meeting of the Company held on 28 July 2004. Details of such reduction are set out in the circular of the Company dated 29 June 2004.

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 and to apply part of the credits arising therefrom 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 to transfer the remaining balance of HK\$227,555,000 to the contributed surplus account of the Company. A special resolution to approve the aforesaid proposal was passed at the special general meeting of the Company held on 23 August 2004. Details of the proposal are set out in the circular of the Company dated 30 July 2004.

The Group had no debt securities or other capital instruments as at 31 March 2005 and up to the date of this report.



MATERIAL ACQUISITIONS AND DISPOSALS

As jointly announced by the Company and Asia Alliance Holdings Limited (“Asia Alliance”), an associate of the Group, on 5 March 2004, a wholly-owned subsidiary of the Company has conditionally agreed to dispose of all the issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000 (the “Disposal”). The consideration of the Disposal has been subsequently adjusted down to HK\$38,879,778, details of which are set out in the joint announcement of the Company and Asia Alliance dated 16 June 2005. Completion of the Disposal took place on 17 May 2004. 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).

Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 March 2005.

CHARGES ON GROUP ASSETS

As at 31 March 2005, leasehold land and buildings, and investment properties with carrying amount of approximately HK\$9,337,000 (31 March 2004: approximately HK\$9,558,000) and approximately HK\$619,010,000 (31 March 2004: approximately HK\$478,400,000), respectively, were pledged to banks to secure the bank borrowings granted to the Group.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

During the year ended 31 March 2005, the Group spent approximately HK\$1,589,000 (2004: approximately HK\$17,465,000) on acquisition of property, plant and equipment.

As at 31 March 2005 and 2004, the Group had no significant capital commitments.

CONTINGENT LIABILITIES

As at 31 March 2005, the outstanding amount of the Group’s banking facilities utilised to the extent of approximately HK\$188,913,000 (31 March 2004: approximately HK\$301,545,000) were supported by the Company’s corporate guarantees given to the banks and bills discounted with recourse were amounted to approximately HK\$3,441,000 (31 March 2004: approximately HK\$5,719,000).

Save as disclosed above, the Group did not have any significant contingent liabilities as at 31 March 2005.

SIGNIFICANT INVESTMENT

As at 31 March 2005, the Group had significant investments in a portfolio of Hong Kong listed equity securities with an aggregate market value of approximately HK\$244,030,000 (31 March 2004: Nil). These securities were purchased during the year under review at a total cost of approximately HK\$85,451,000. As a result, there was unrealised gain of approximately HK\$158,579,000 recorded during the year under review due to the increase in the market value of these securities.

Saved as disclosed above, the Group did not have any significant investment held or any significant investment plans as at 31 March 2005.



PRESIDENT'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLAN FOR MATERIAL INVESTMENTS

While the directors of the Company are constantly looking for investment opportunities, no concrete new investment projects have been identified.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2005, the number of employees of the Group in Hong Kong and the US was about 60 and 16 respectively. Employees' cost (including directors' emoluments) amounted to approximately HK\$27,798,000 for the year under review (2004: approximately HK\$39,302,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has adopted the Mandatory Provident Fund for the Hong Kong employees and has made contributions to the pension scheme for the US staff. The Group also has a share option scheme to motivate valued 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.

On behalf of the Board

Koon Wing Yee

President and Chief Executive Officer

Hong Kong, 25 July 2005



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Koon Wing Yee

President and Chief Executive Officer

Mr. Koon, aged 49, is a co-founder of the Group and is responsible for the overall management and development of the Group. He serves as director of various members of the Group. He is also an executive director, the Chairman and Chief Executive Officer of Asia Alliance and an independent non-executive director of Chinese Estates Holdings Limited. He has been involved in the textiles industry for more than 27 years. 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 FHKICPA, FCCA, AHKIT, CGA, CPA

Vice President and Company Secretary

Mr. Tsang, aged 53, is responsible for the corporate affairs, finance and general management of the Group. He serves as director and secretary of various members of the Group. He is also an executive director, the Vice Chairman and 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 Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. He has about 29 years of working experience. Mr. Tsang was appointed to the Board in September 1994.

Ms. Lui Yuk Chu

Ms. Lui, aged 47, is a co-founder of the Group and serves as director of various members of the Group. She is also an executive director of Asia Alliance. She is the wife of Mr. Koon Wing Yee. She has been involved in the textiles industry for more than 27 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. Mr. Wong was appointed to the board in October 2000.

Mr. Tsui Chun Kong

Mr. Tsui, aged 54, obtained a Master Degree in Business Administration from the Oklahoma City University in the US in 1991 and is a fellow member of both The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. Mr. Tsui has over 31 years experience in the public accounting profession and the commercial sector, especially the travel industry. He has experience in the preparation for the listing of shares on The Stock Exchange of Hong Kong Limited and worked for a few listed companies. He is now practising as a public accountant on his own name. Mr. Tsui was appointed to the Board in September 2004.



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Jong Koon Sang

Mr. Jong, aged 56, is a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of International Accountants, England. He is also a statutory member of Chartered Management Institute, England and an associate member of The Taxation Institute of Hong Kong. He is currently the Honorary Secretary of The Association of International Accountants, Hong Kong Branch, the accountant ambassador of The Hong Kong Institute of Certified Public Accountants and a mentor of Hong Kong University of Science and Technology, Department of Accounting. Mr. Jong has over 36 years of management experience in the financial, industrial and property business. He was the chief executive officer and financial controller of two shopping malls in New Zealand. He had held senior management positions in a number of listed companies and conglomerates in the Asia Pacific region. Mr. Jong was appointed to the Board in January 2005.

SENIOR MANAGEMENT

Miss Leung Siu Mei

Assistant General Manager

Miss Leung, aged 45, 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 49, 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 2005.

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 and property investments.

RESULTS

The results of the Group are set out in the consolidated income statement on page 20.

No interim dividend was paid during the year ended 31 March 2005. 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 2005 to shareholders whose names appear on the register of members of the Company on 23 August 2005.

Subject to the approval by the shareholders at the forthcoming annual general meeting, it is intended that dividend warrants will be despatched to shareholders on or before 30 September 2005.

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier of the Group by itself and together with the other four largest suppliers accounted for approximately 40% and 80%, 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 34% and 65%, 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 30 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$1.6 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 16 to the financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 March 2005 by a firm of independent professional property valuers and the resulting surplus of HK\$140,690,000 was credited to the consolidated income statement to reverse deficit previously charged. Details of these are set out in note 17 to the financial statements.



REPORT OF THE DIRECTORS

PRINCIPAL SUBSIDIARIES

The details of the Company's principal subsidiaries at 31 March 2005 are set out in note 43 to the financial statements.

PRINCIPAL ASSOCIATES

The details of the Group's principal associates at 31 March 2005 are set out in note 20 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
Jong Koon Sang (appointed on 6 January 2005)
Tsui Chun Kong (appointed on 15 September 2004)
Pun Hei, Hectar (resigned on 6 January 2005)

In accordance with the Company's Bye-law 102(B), Mr. Jong Koon Sang and Mr. Tsui Chun Kong shall hold office until the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with the Company's Bye-law 99, Ms. Lui Yuk Chu will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offers herself 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.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the following connected transactions of the Company are required to be disclosed in the annual report of the Company:

On 10 May 2004, the Company entered into an agreement (as supplemented by a supplemental letter dated 15 June 2004) (the "LTC Agreement") with Mr. Louie Tsz Chung ("Mr. Louie") and an agreement (as supplemented by a supplemental letter dated 15 June 2004) (the "KPF Agreement") with Ms. Koon Po Fun ("Ms. Koon"), pursuant to which, amongst other things, the Group has agreed to purchase garments, apparel, clothing and textiles from companies (the "LTC Companies") controlled by Mr. Louie (the "LTC Transactions") and companies (the "KPF Companies") controlled by Ms. Koon (the "KPF Transactions"), respectively, for the period from 1 April 2004 to 31 March 2007 subject to respective caps. In addition, under the terms of the LTC Agreement and the KPF Agreement, the Group has agreed to prepay the LTC Companies and the KPF Companies for the garments to be manufactured for the Group. Such prepayment is interest-free and repayable by the LTC Companies and the KPF Companies on demand and the maximum amount of which will not exceed 50% of the value of the relevant order. The terms of the prepayment granted by the Group to the LTC Companies and the KPF Companies are normal commercial terms which are common in the garment industry in Hong Kong.

Mr. Louie is the nephew of Ms. Lui Yuk Chu, a director of the Company, and Ms. Koon is the sister of Mr. Koon Wing Yee, a director of the Company. Pursuant to the Listing Rules, Mr. Louie has been deemed to be a connected person of the Company and Ms. Koon is a connected person of the Company. The LTC Transactions and the KPF Transactions constitute non-exempt continuing connected transactions of the Company under the Listing Rules and were approved by the independent shareholders at the special general meeting of the Company held on 28 July 2004. Details of the LTC Transactions and the KPF Transactions are set out in the circular of the Company dated 29 June 2004.

The LTC Transactions and the KPF Transactions for the period from 1 April 2004 to 31 March 2005 amounted to approximately HK\$183,968,000 and approximately HK\$40,017,000, respectively.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the LTC Transactions and the KPF Transactions for the period from 1 April 2004 to 31 March 2005 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Details of other related party transactions undertaken up by the Group in the normal course of business during the year ended 31 March 2005, which do not constitute connected transactions of the Company required to be disclosed under the Listing Rules, are provided under note 15 to the financial statements.

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.

REPORT OF THE DIRECTORS

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Other than the contracts disclosed in the section heading "Directors' Interests in Contracts and Connected Transactions", there was no contract of significance between the Company or its subsidiaries and a controlling shareholder or any of its subsidiaries subsisting during or at the end of the year. Furthermore, there was no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

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

As at 31 March 2005, 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 Issuers (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	486,324,678	36.74%
Ms. Lui Yuk Chu (<i>note 1</i>)	Beneficiary of a trust	486,324,678	36.74%
Mr. Tsang Yiu Kai	Beneficial owner	149,993	0.01%

Note 1: The 486,324,678 shares relate to the same block of shares in the Company. 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 Trustcorp 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 486,324,678 shares by virtue of the SFO.



REPORT OF THE DIRECTORS

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

Asia Alliance Holdings Limited (“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: The 128,259,324 shares relate to the same block of shares in Asia Alliance. 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 Trustcorp 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 2005, 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 31 to the financial statements.

The closing price of the Company's shares on 17 November 2004, being the trading day immediately before the date of offer of the options set out in note 31 to the financial statements, was HK\$0.125.

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.

No shares were available for issue under the Company's share option scheme as at the date of this report.

Save as disclosed above, at no time during the year ended 31 March 2005 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 2005, 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>notes 1 & 2</i>)	Beneficial owner	486,324,678	36.74%
Accumulate More Profits Limited (<i>notes 1 & 3</i>)	Interest of controlled corporation	486,324,678	36.74%
Trustcorp Limited (<i>note 1</i>)	Trustee	486,324,678	36.74%



REPORT OF THE DIRECTORS

Notes:

- (1) The 486,324,678 shares relate to the same block of shares in the Company. 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 Trustcorp 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).
- (2) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited.
- (3) Mr. Koon Wing Yee, being a director of the Company, is also a director of Accumulate More Profits Limited.

Other than as disclosed above, as at 31 March 2005, 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.

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 ended 31 March 2005.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules in force immediately prior to 1 January 2005, 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 meetings of the Company in accordance with the provisions of the Company's Bye-laws.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 March 2005.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders, but there are no restrictions against such rights under the laws in Bermuda.

DONATIONS

During the year, the Group made donations amounting to HK\$669,400.



REPORT OF THE DIRECTORS

POST BALANCE SHEET EVENTS

The details of the significant post balance sheet events are set out in note 42 to the financial statements.

PUBLIC FLOAT

As at the date of this report, based on the information publicly available to the Company and within the knowledge of the directors of the Company, over 25% of the issued share capital of the Company was held by the public as required under the Listing Rules.

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, 25 July 2005



REPORT OF THE AUDITORS

Deloitte. 德勤

TO THE SHAREHOLDERS OF EASYKNIT INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 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 Institute of Certified Public 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 2005 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
25 July 2005



CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Turnover	4	590,001	706,044
Cost of sales		(461,181)	(567,958)
Gross profit		128,820	138,086
Other operating income		5,127	4,392
Distribution costs		(25,088)	(33,330)
Administrative expenses		(55,345)	(74,151)
Reversal of deficit arising on revaluation of investment properties		140,690	42,500
Unrealised gain on other investments		158,579	—
Impairment loss recognised in respect of property, plant and equipment		—	(9,911)
Impairment loss of goodwill on acquisition of additional interests in subsidiaries		—	(3,270)
Loss on disposal of investment properties		—	(1,644)
Impairment loss of goodwill on acquisition of a subsidiary		—	(104)
Profit from operations	7	352,783	62,568
Gain on disposal of subsidiaries/a subsidiary	8	14,149	63,950
Gain on deemed disposal of discontinued operations	6	—	19,317
Gain on partial disposal of a subsidiary	9	—	886
Finance costs	10	(3,566)	(7,855)
Share of results of associates		2,876	(3,919)
Share of results of a jointly controlled entity		—	(72)
Profit before taxation		366,242	134,875
Taxation	12	(9,889)	(2,459)
Profit before minority interests		356,353	132,416
Minority interests		—	8,414
Net profit for the year		356,353	140,830
Proposed dividend	13	6,618	6,618
Earnings per share	14		
Basic		HK\$0.293	HK\$0.166
Diluted		HK\$0.291	N/A



CONSOLIDATED BALANCE SHEET

At 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Property, plant and equipment	16	24,435	39,003
Investment properties	17	619,970	479,280
Permanent textile quota entitlements	18	—	884
Club debenture		921	921
Interests in associates	20	15,729	20,788
		<hr/>	<hr/>
		661,055	540,876
Current assets			
Properties held for sale	21	21,624	56,686
Other investments	22	244,030	—
Inventories	23	2,423	8,355
Consideration receivable on disposal of a subsidiary	24	—	79,000
Trade and other receivables	25	196,213	226,713
Loans receivable	26	71,875	43,277
Bills receivable		44,925	16,401
Tax recoverable		2,051	2,467
Bank balances and cash		83,901	67,357
		<hr/>	<hr/>
		667,042	500,256
Current liabilities			
Trade and other payables	27	37,118	55,778
Consideration repayable on disposal of a subsidiary	35	11,120	—
Bills payable		1,564	704
Tax payable		23,727	15,343
Obligations under finance leases - amount due			
within one year	28	18	19
Secured borrowings - amount due within one year	29	120,986	150,420
		<hr/>	<hr/>
		194,533	222,264
Net current assets			
		<hr/>	<hr/>
		472,509	277,992
		<hr/>	<hr/>
		1,133,564	818,868
		<hr/> <hr/>	<hr/> <hr/>



CONSOLIDATED BALANCE SHEET

At 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Capital and reserves			
Share capital	30	132,367	88,245
Reserves		933,117	578,970
		<u>1,065,484</u>	<u>667,215</u>
Non-current liabilities			
Obligations under finance leases - amount due after one year	28	—	18
Secured borrowings - amount due after one year	29	66,363	151,125
Deferred taxation	33	1,717	510
		<u>68,080</u>	<u>151,653</u>
		<u>1,133,564</u>	<u>818,868</u>

The financial statements on pages 20 to 73 were approved and authorised for issue by the Board of Directors on 25 July 2005 and are signed on its behalf by:

Koon Wing Yee

Director

Tsang Yiu Kai

Director



BALANCE SHEET

At 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Interests in subsidiaries	19	1,117,686	339,492
Club debenture		921	921
		<u>1,118,607</u>	<u>340,413</u>
Current assets			
Consideration receivable on disposal of a subsidiary	24	—	79,000
Other receivables		168	148
Bank balances and cash		80,805	63,142
		<u>80,973</u>	<u>142,290</u>
Current liabilities			
Sundry payables		3,051	352
Amounts due to subsidiaries	19	162,564	118,182
		<u>165,615</u>	<u>118,534</u>
Net current (liabilities) assets		<u>(84,642)</u>	<u>23,756</u>
Net assets		<u>1,033,965</u>	<u>364,169</u>
Capital and reserves			
Share capital	30	132,367	88,245
Reserves	32	901,598	275,924
Shareholders' funds		<u>1,033,965</u>	<u>364,169</u>

Koon Wing Yee

Director

Tsang Yiu Kai

Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2005

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 <i>(Note 32)</i>	Special reserve HK\$'000 <i>(Note 32)</i>	Contributed surplus HK\$'000 <i>(Note 32)</i>	Accumulated (losses) profits HK\$'000	Total HK\$'000
At 1 April 2003	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	88,245	1,117,131	895,932	9,800	—	(1,443,893)	667,215
Reductions of share premium and capital reserve and offsetting accumulated losses <i>(see note 32)</i>	—	(1,117,131)	(895,932)	—	227,555	1,785,508	—
Rights issue of shares at a price of HK\$0.11 per rights share	44,122	4,412	—	—	—	—	48,534
Net profit for the year	—	—	—	—	—	356,353	356,353
2004 final dividend paid	—	—	—	—	(6,618)	—	(6,618)
At 31 March 2005	132,367	4,412	—	9,800	220,937	697,968	1,065,484



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005

	2005 HK\$'000	2004 HK\$'000
Cash flows from operating activities		
Profit before taxation	366,242	134,875
Adjustments for:		
Share of results of associates	(2,876)	3,919
Share of results of a jointly controlled entity	—	72
Interest income	(2,118)	(3,172)
Interest expense	3,559	7,849
Finance charges on obligations under finance leases	7	6
Depreciation	1,619	7,682
Allowance for inventories	3,571	—
Allowance for doubtful debts	4,215	1,094
Amortisation of permanent textile quota entitlements	884	1,305
Impairment loss of goodwill on acquisition of a subsidiary	—	104
Impairment loss of goodwill on acquisition of additional interests in subsidiaries	—	3,270
Reversal of deficit arising on revaluation of investment properties	(140,690)	(42,500)
Unrealised gain on other investments	(158,579)	—
Impairment loss recognised in respect of property, plant and equipment	—	9,911
(Gain) loss on disposal of property, plant and equipment	(143)	149
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
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 subsidiaries/a subsidiary	(14,149)	(63,950)
Gain on disposal of permanent textile quota entitlements	(2)	(1)
(Gain) loss on disposal of other investments	(919)	2,328
Operating profit before movements in working capital	60,621	44,506
Decrease in properties held for sale	35,062	32,814
(Increase) decrease in inventories	(649)	2,133
Decrease (increase) in trade and other receivables	6,312	(34,354)
(Increase) decrease in bills receivable	(28,524)	1,581
Decrease in trade and other payables	(7,915)	(14,029)
Increase in bills payable	2,697	704
Cash from operations	67,604	33,355
Interest paid	(3,559)	(7,849)
Finance charges on obligations under finance leases paid	(7)	(6)
Hong Kong Profits Tax paid	(1,601)	(6,703)
Hong Kong Profits Tax refund	1,719	384
Net cash from operating activities	64,156	19,181



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Cash flows from investing activities			
Proceeds from disposal of a subsidiary		79,000	—
Disposal of subsidiaries/a subsidiary, net of cash and cash equivalents disposed of	35	49,352	4,950
Proceeds from disposal of other investments		5,158	15,877
Interest received		2,118	3,172
Acquisition of a subsidiary, net of cash and cash equivalents acquired	34	7	(72)
Proceeds from disposal of permanent textile quota entitlements		2	23
Purchase of other investments		(89,690)	(18,205)
Net cash (outflow) inflow from advance of loans		(28,598)	28,415
Purchase of property, plant and equipment		(1,589)	(17,465)
Repayment of loan from an associate		—	21,270
Proceeds from disposal of investment properties		—	14,356
Proceeds from partial disposal of a subsidiary		—	886
Proceeds from disposal of property, plant and equipment		152	287
Capital contribution to associates		—	(26,723)
Deemed disposal of a subsidiary, net of cash and cash equivalents disposed of	36	—	(17,822)
Acquisition of additional interests in subsidiaries		—	(468)
Purchase of club debenture		—	(180)
Advance to an associate		—	(16)
Net cash from investing activities		15,912	8,285
Cash flows from financing activities			
Proceeds from issue of new shares		48,534	—
Bank borrowings raised		22,660	102,916
Repayment of bank borrowings		(128,081)	(139,187)
Dividends paid		(6,618)	—
Repayment of obligations under finance leases		(19)	(20)
Capital contribution from minority shareholders		—	22,374
Net cash used in financing activities		(63,524)	(13,917)
Net increase in cash and cash equivalents		16,544	13,549
Cash and cash equivalents at beginning of the year		67,357	53,808
Cash and cash equivalents at end of the year, represented by bank balances and cash		83,901	67,357



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

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 and property investments.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31 March 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

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 2005

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 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, 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, 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.

Revenue recognition

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

Income from properties developed for sales is recognised when legal title of the properties 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Revenue recognition - *continued*

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.

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.

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 Statement of Standard Accounting Practice 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

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.

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 2005



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 2005

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Taxation - *continued*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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 2005

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:

	2005	2004
	HK\$'000	HK\$'000
Continuing operations:		
Sales of goods	499,121	551,938
Sales of properties	39,017	34,424
Rental income	24,345	23,074
Quota income	20,369	38,947
Building management fee income	173	—
	<hr/> 583,025 <hr/>	<hr/> 648,383 <hr/>
Discontinued operations (<i>see note 6</i>):		
Bleaching and dyeing services	6,976	55,679
Telecommunications services	—	1,982
	<hr/> 6,976 <hr/>	<hr/> 57,661 <hr/>
	<hr/> 590,001 <hr/> <hr/>	<hr/> 706,044 <hr/> <hr/>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

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 and bleaching and dyeing were discontinued in November 2003 and May 2004 respectively (*see note 6*).

Segment information about these businesses is presented below:

Year 2005

(i) Income statement

	Continuing operations				Discontinued operations		Consolidated HK\$'000
	Garment sourcing and export	Property investment	Investment in securities	Loan financing	Bleaching and dyeing	Eliminations	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
TURNOVER							
External	519,490	63,535	—	—	6,976	—	590,001
Inter-segment	—	3,000	—	—	7	(3,007)	—
Total	<u>519,490</u>	<u>66,535</u>	<u>—</u>	<u>—</u>	<u>6,983</u>	<u>(3,007)</u>	<u>590,001</u>
RESULT							
Segment result and profit from operations	<u>23,667</u>	<u>169,889</u>	<u>159,498</u>	<u>1,926</u>	<u>(258)</u>	<u>(1,939)</u>	352,783
Gain on disposal of subsidiaries					14,149		14,149
Finance costs							(3,566)
Share of results of associates							<u>2,876</u>
Profit before taxation							366,242
Taxation							<u>(9,889)</u>
Net profit for the year							<u>356,353</u>

Notes:

- Inter-segment transactions are charged at prevailing market prices.
- Turnover from garment sourcing and export includes income from temporary transfer of permanent textile quota entitlements of HK\$19,812,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

Year 2005 - *continued*

(ii) Balance sheet

	Continuing operations				Consolidated
	Garment sourcing and export	Property investment	Investment in securities	Loan financing	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
ASSETS					
Segment assets	238,525	647,804	244,030	72,560	1,202,919
Interests in associates					15,729
Unallocated corporate assets					109,449
					1,328,097
Consolidated total assets					1,328,097
LIABILITIES					
Segment liabilities	15,001	20,625	—	23	35,649
Unallocated corporate liabilities					226,964
					262,613
Consolidated total liabilities					262,613

(iii) Other information

	Continuing operations				Discontinued operations	Consolidated
	Garment sourcing and export	Property investment	Investment in securities	Loan financing	Bleaching and dyeing	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Capital additions	1,572	—	—	—	17	1,589
Depreciation and amortisation	1,645	532	—	—	326	2,503
Allowance for doubtful debts	4,215	—	—	—	—	4,215
Allowance for inventories	3,571	—	—	—	—	3,571



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

Year 2004

(i) Income statement

	Continuing operations				Discontinued operations			Consolidated
	Garment sourcing and export	Property investment	Investment in securities	Loan financing	Tele-communications services and related investments	Bleaching and dyeing	Eliminations	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER								
External	590,885	57,498	—	—	1,982	55,679	—	706,044
Inter-segment	—	3,000	—	—	—	68	(3,068)	—
Total	<u>590,885</u>	<u>60,498</u>	<u>—</u>	<u>—</u>	<u>1,982</u>	<u>55,747</u>	<u>(3,068)</u>	<u>706,044</u>
RESULT								
Segment result and profit from operations	<u>36,169</u>	<u>59,130</u>	<u>(2,333)</u>	<u>4,701</u>	<u>(26,274)</u>	<u>(363)</u>	<u>(8,462)</u>	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								<u>140,830</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

Year 2004 - *continued*

(i) Income statement - *continued*

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.

(ii) Balance sheet

	Continuing operations			Discontinued operations		
	Garment sourcing and export	Property investment	Investment in securities	Loan financing	Bleaching and dyeing	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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						<u>1,041,132</u>
LIABILITIES						
Segment liabilities	28,348	15,433	—	27	12,323	56,131
Unallocated corporate liabilities						317,786
Consolidated total liabilities						<u>373,917</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

Year 2004 - *continued*

(iii) Other information

	Continuing operations			Discontinued 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 2005



5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Geographical segments

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

	Turnover	
	2005 HK\$'000	2004 HK\$'000
Hong Kong	63,535	59,480
The People's Republic of China, excluding Hong Kong (the "PRC")	6,976	55,679
United States of America ("USA")	468,968	525,916
Canada	1,214	14,907
Mexico	12,309	13,575
Europe	36,999	36,487
	590,001	706,044

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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	1,313,793	984,484	1,563	12,270
PRC	—	38,772	17	5,105
USA	12,253	15,409	9	90
	1,326,046	1,038,665	1,589	17,465

6. DISCONTINUED OPERATIONS

(a) Asia Alliance Holdings Limited ("Asia Alliance") is incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange. It was a subsidiary of the Company (see also note 9). 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 20). 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 for the year ended 31 March 2004.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

6. DISCONTINUED OPERATIONS - *continued*

The results of the discontinued operations were as follows:

	2005 HK\$'000	2004 HK\$'000
Turnover	—	1,982
Cost of sales	—	(1,703)
Gross profit	—	279
Other operating income	—	442
Distribution costs	—	(11)
Administrative expenses	—	(16,969)
Impairment loss recognised in respect of property, plant and equipment	—	(9,911)
Impairment loss of goodwill on acquisition of a subsidiary	—	(104)
Loss from operations	—	(26,274)
Finance costs	—	(353)
Share of results of a jointly controlled entity	—	(72)
Loss for the year	—	(26,699)

The carrying amounts of the assets and liabilities of the discontinued operations at the date of the deemed disposal are set out in note 36.

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

	2005 HK\$'000	2004 HK\$'000
Net cash used in operating activities	—	(13,894)
Net cash used in investing activities	—	(12,083)
Net cash from financing activities	—	22,374
Net cash outflow	—	(3,603)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



6. DISCONTINUED OPERATIONS - *continued*

- (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 in 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 discontinued operation of the Group and was completed on 17 May 2004.

The results of the discontinued operations were as follows:

	2005 HK\$'000	2004 HK\$'000
Turnover	6,983	55,747
Cost of sales	(6,465)	(51,731)
Gross profit	518	4,016
Other operating income	15	172
Distribution costs	(113)	(1,420)
Administrative expenses	(678)	(3,131)
Loss from operations	(258)	(363)
Finance costs	(17)	(172)
Loss for the year	(275)	(535)

The carrying amounts of the assets and liabilities of the discontinued operations at the date of the disposal are set out in note 35. The total assets and total liabilities of the discontinued operations amounted to HK\$38,773,000 and HK\$21,927,000, respectively, at 31 March 2004.

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

	2005 HK\$'000	2004 HK\$'000
Net cash used in operating activities	(1,837)	(5,295)
Net cash used in investing activities	(12)	(5,090)
Net cash from financing activities	725	11,146
Net cash (outflow) inflow	(1,124)	761



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

7. PROFIT FROM OPERATIONS

	2005 HK\$'000	2004 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (<i>note 11(a)</i>)	7,383	7,208
Other staff costs, including retirement benefits costs	20,415	32,094
Total staff costs	<u>27,798</u>	<u>39,302</u>
Allowance for doubtful debts	4,215	1,094
Allowance for inventories	3,571	—
Auditors' remuneration:		
- current year	647	876
- underprovision in prior years	78	56
Cost of inventories consumed	420,760	523,254
Cost of properties sold	35,062	32,814
Depreciation and amortisation on:		
- owned assets	1,599	7,662
- assets held under finance leases	20	20
- permanent textile quota entitlements (<i>note</i>)	884	1,305
Loss on disposal of other investments	—	2,328
Loss on disposal of property, plant and equipment	—	149
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	516	7,679
and after crediting:		
Gain on disposal of property, plant and equipment	143	—
Gain on disposal of other investments	919	—
Gain on disposal of permanent textile quota entitlements	2	1
Interest income	<u>2,118</u>	<u>3,172</u>

Note: The amount is included in distribution costs.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

8. GAIN ON DISPOSAL OF SUBSIDIARIES/A SUBSIDIARY

During the year ended 31 March 2005, the amount represented the gain on disposal of the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance (see also notes 6(b) and 35).

During the year ended 31 March 2004, the amount represented the gain on disposal of the entire issued share capital of Touch Profits Limited to an outside party. The principal assets of Touch Profits Limited at the date of disposal are shares of Citic 21CN Company Limited (formerly known as "21CN CyberNet Corporation Limited") ("21CN"), which is a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (see also note 24).

9. 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 for the year ended 31 March 2004.

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)).

10. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on:		
- bank borrowings wholly repayable within five years	3,559	7,496
- other borrowings wholly repayable within five years	—	353
- obligations under finance leases	7	6
	<u>3,566</u>	<u>7,855</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

	2005 HK\$'000	2004 HK\$'000
Directors' fees:		
Executive	—	—
Independent non-executive	256	200
	<u>256</u>	<u>200</u>
Other emoluments paid to executive directors:		
Salaries and other benefits (including benefits in kind of HK\$2,087,000; 2004: HK\$1,968,000)	6,887	6,768
Retirement benefits costs	240	240
	<u>7,127</u>	<u>7,008</u>
Total directors' emoluments	<u>7,383</u>	<u>7,208</u>

The emoluments of the directors fall within the following bands:

	Number of directors	
	2005	2004
Nil to HK\$1,000,000	4	3
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$3,000,001 to HK\$3,500,000	1	1
	<u>7</u>	<u>6</u>

(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:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	<u>1,541</u>	<u>1,824</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

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

(b) Information regarding employees' emoluments - *continued*

The emoluments of these employees fall within the following bands:

	Number of employees	
	2005	2004
Nil to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	—	1
	<u>2</u>	<u>2</u>

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.

12. TAXATION

	2005	2004
	HK\$'000	HK\$'000
The charge comprises:		
Current tax - Hong Kong Profits Tax:		
Current year	8,677	2,339
Under(over)provision in prior years	5	(165)
	<u>8,682</u>	<u>2,174</u>
Deferred taxation (<i>note 33</i>):		
Current year	1,207	264
Attributable to a change in tax rate	—	21
	<u>1,207</u>	<u>285</u>
Tax charge attributable to the Company and its subsidiaries	<u>9,889</u>	<u>2,459</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

12. TAXATION - *continued*

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

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	<u>366,242</u>	<u>134,875</u>
Tax charge of Hong Kong Profits Tax at 17.5% (2004: 17.5%)	64,092	23,603
Tax effect of share of results of associates	(503)	686
Tax effect of share of results of a jointly controlled entity	—	13
Tax effect of expenses not deductible for tax purpose	1,599	2,884
Tax effect of income not taxable for tax purpose	(18,970)	(17,698)
Tax effect of tax losses not recognised	3,071	2,504
Tax effect of utilisation of tax losses previously not recognised	(34,422)	(6,394)
Tax effect of other deductible temporary differences not recognised	(5,031)	(2,995)
Under(over)provision in prior years	5	(165)
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	—	21
Others	<u>48</u>	<u>—</u>
Tax charge for the year	<u>9,889</u>	<u>2,459</u>

13. PROPOSED DIVIDEND

	2005 HK\$'000	2004 HK\$'000
Proposed final dividend of 0.5 HK cent (2004: 0.5 HK cent) per ordinary share	<u>6,618</u>	<u>6,618</u>

The final dividend of 0.5 HK cent (2004: 0.5 HK cent) per share has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

14. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share are based on the following data:

	2005 HK\$'000	2004 HK\$'000
Earnings for the purposes of calculating basic and diluted earnings per share	<u>356,353</u>	<u>140,830</u>
	2005	2004
Number of shares		
Weighted average number of shares for the purposes of calculating basic earnings per share	<u>1,218,081,240</u>	<u>847,856,926</u>
Effect of dilutive potential shares relating to outstanding share options	<u>5,256,920</u>	
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>1,223,338,160</u>	

The denominator for the purpose of calculating basic earnings per share for year 2004 has been adjusted to reflect the rights issue of shares in June 2004.

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

15. 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	
	2005 HK\$'000	2004 HK\$'000
Sales of garments	503	861
Bleaching and dyeing charges received	978	27,840
Rental income	74	494
Purchases of garments	<u>223,985</u>	<u>245,849</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

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

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Trade receivables	11,923	10,942
Deposits paid	83,553	102,913
Trade and other receivables	<u>95,476</u>	<u>113,855</u>

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.

- (b) In May 2004, the Group disposed of the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000, subject to adjustment, as described in the sale and purchase agreement dated 5 March 2004. The consideration has been subsequently adjusted downwards to HK\$38,880,000 on 16 June 2005. Details of the transaction are set out in note 35.
- (c) On 20 September 2004, Easyknit Properties Holdings Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Koon Wing Yee and Mr. Tsang Yiu Kai, the directors of the Company, to acquire the entire issued shares of Easyknit Properties Management Limited ("EPML") from them at a cash consideration of HK\$15,000. Details of the transaction are set out in note 34.
- (d) Prior to the acquisition of the entire issued shares of EPML, the Group provided administrative service to EPML 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\$104,000 (2004: HK\$222,000) from that company. The service income is determined based on mutually agreed terms.
- (e) The Group also provided administrative service to Asia Alliance, a company in which Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu, all of whom are directors of the Company, have beneficial interests, and received service income of HK\$241,000 (2004: nil) from that company. The service income is determined based on mutually agreed terms.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 April 2004	41,384	14,666	16,718	2,541	75,309
Additions	—	—	259	1,330	1,589
On disposal of subsidiaries	—	(14,656)	(2,350)	(816)	(17,822)
Disposals	—	(10)	(11)	(762)	(783)
	<u>41,384</u>	<u>—</u>	<u>14,616</u>	<u>2,293</u>	<u>58,293</u>
At 31 March 2005	41,384	—	14,616	2,293	58,293
Comprising:					
At cost	12,384	—	14,616	2,293	29,293
At valuation - 1995	29,000	—	—	—	29,000
	<u>41,384</u>	<u>—</u>	<u>14,616</u>	<u>2,293</u>	<u>58,293</u>
DEPRECIATION AND IMPAIRMENT LOSS					
At 1 April 2004	18,445	2,094	14,017	1,750	36,306
Provided for the year	530	227	640	222	1,619
On disposal of subsidiaries	—	(2,317)	(928)	(48)	(3,293)
Eliminated on disposals	—	(4)	(8)	(762)	(774)
	<u>18,975</u>	<u>—</u>	<u>13,721</u>	<u>1,162</u>	<u>33,858</u>
At 31 March 2005	18,975	—	13,721	1,162	33,858
NET BOOK VALUES					
At 31 March 2005	<u>22,409</u>	<u>—</u>	<u>895</u>	<u>1,131</u>	<u>24,435</u>
At 31 March 2004	<u>22,939</u>	<u>12,572</u>	<u>2,701</u>	<u>791</u>	<u>39,003</u>

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\$27,320,000 (2004: HK\$28,003,000).

The net book value of plant and machinery of the Group included an amount of HK\$18,000 (2004: HK\$38,000) in respect of assets held under finance leases.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

17. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1 April 2004	479,280
Surplus arising on revaluation	<u>140,690</u>
At 31 March 2005	<u><u>619,970</u></u>

The investment properties are held for rental purposes under operating leases. They were revalued at 31 March 2005 by Messrs. Knight Frank, a firm of independent professional property valuers, on market value basis. This revaluation gives rise to a revaluation surplus of HK\$140,690,000 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	
	2005 HK\$'000	2004 HK\$'000
Long leases	268,200	174,000
Medium-term leases	351,770	<u>305,280</u>
	<u>619,970</u>	<u><u>479,280</u></u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

18. PERMANENT TEXTILE QUOTA ENTITLEMENTS

	THE GROUP
	HK\$'000
COST	
At 1 April 2004	230,381
Disposals	(230,381)
	<hr/>
At 31 March 2005	—
	<hr/>
AMORTISATION	
At 1 April 2004	229,497
Provided for the year	884
Eliminated on disposals	(230,381)
	<hr/>
At 31 March 2005	—
	<hr/>
CARRYING AMOUNT	
At 31 March 2005	—
	<hr/> <hr/>
At 31 March 2004	884
	<hr/> <hr/>

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	48,577	48,577
Amounts due from subsidiaries	1,897,362	1,755,418
	<u>1,945,939</u>	<u>1,803,995</u>
Less: Allowance	(828,253)	(1,464,503)
	<u>1,117,686</u>	<u>339,492</u>
Amounts due to subsidiaries	(162,564)	(118,182)

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. An aggregate sum of HK\$59,754,000 (2004: HK\$66,663,000) 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\$121,841,000 (2004: HK\$73,163,000) 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 2005 are set out in note 43.

20. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	15,729	20,788



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

20. INTERESTS IN ASSOCIATES - *continued*

Particulars of the Group's principal associates as at 31 March 2005 are as follows:

Name of associate	Form of business structure	Place of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Group	Nature of business
Asia Alliance Holdings Limited	Incorporated	Bermuda	Hong Kong	Ordinary	35.93%	Investment holding
Good Fine Technology Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.93%*	Wireless communication business, communication solutions consultancy services and Internet operations
Po Cheong International Enterprises Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.93%*	Investment holding
Tat Cheong International (HK) Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.93%*	Investment holding
東莞永耀漂染有限公司 ("Wing Yiu") **	Establishment	PRC	PRC	N/A	35.93%*	Garment bleaching and dyeing
永義紡織 (河源) 有限公司 ("He Yuan") ***	Establishment	PRC	PRC	N/A	35.93%*	Garment knitting

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

** Wing Yiu is a wholly foreign owned enterprise established in the PRC, to be operated for 10 years up to 20 August 2011.

*** He Yuan is a wholly foreign owned enterprise established in the PRC, to be operated for 15 years up to 7 March 2019.

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. To give details of other associates would in the opinion of the directors, result in particulars of excessive length.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

21. PROPERTIES HELD FOR SALE

The properties held for sales are situated in Hong Kong and are held under medium-term leases. They were stated at cost at 31 March 2005. At 31 March 2004, they were stated at net realisable value.

22. OTHER INVESTMENTS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Equity securities listed in Hong Kong at market value	<u>244,030</u>	<u>—</u>

23. INVENTORIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Raw materials	—	2,145
Work-in-progress	—	478
Finished goods	<u>2,423</u>	<u>5,732</u>
	<u>2,423</u>	<u>8,355</u>

All inventories are carried at cost at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



24. CONSIDERATION RECEIVABLE ON DISPOSAL OF A SUBSIDIARY

The amount represented 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 were shares of 21CN.

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.

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 for the year ended 31 March 2004 (see note 8).

The repayment terms of the balance is as follows:

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

25. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Trade receivables	34,682	55,192
Deposits to suppliers	153,748	166,079
Other receivables	7,783	5,442
	<u>196,213</u>	<u>226,713</u>

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	
	2005 HK\$'000	2004 HK\$'000
0 - 60 days	28,665	23,722
61 - 90 days	2,742	3,565
Over 90 days	3,275	27,905
	<u>34,682</u>	<u>55,192</u>

26. LOANS RECEIVABLE

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Amount secured by property interests and bearing interest at 2% (2004: 2% to 5%) per annum	4,800	22,200
Unsecured amount		
- guaranteed by outside parties and bearing interest at rates ranging from 2% to 6% (2004: 2% to 5%) per annum	54,725	20,142
- bearing interest at rates ranging from 3% to 10% (2004: 4% to 10%) per annum	12,350	575
- guaranteed by outside parties and non-interest bearing	—	360
	<u>71,875</u>	<u>43,277</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

27. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 - 60 days	9,507	20,703
61 - 90 days	14	1,466
Over 90 days	337	14,941
	<u>9,858</u>	<u>37,110</u>

28. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Amounts payable under finance leases:				
Within one year	25	26	18	19
Between one to two years	—	25	—	18
	<u>25</u>	<u>51</u>	<u>18</u>	<u>37</u>
Less: Future finance charges	(7)	(14)	—	—
Present value of lease obligations	<u>18</u>	<u>37</u>	<u>18</u>	<u>37</u>
Less: Amount due within one year shown under current liabilities			(18)	(19)
Amount due after one year			<u>—</u>	<u>18</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

29. SECURED BORROWINGS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
The amounts represent:		
Bank loans	174,835	298,629
Import loans	12,514	2,916
	<u>187,349</u>	<u>301,545</u>
Less: Amount due within one year shown under current liabilities	(120,986)	(150,420)
Amount due after one year	<u>66,363</u>	<u>151,125</u>
The borrowings bear interest at prevailing market rates and are repayable as follows:		
Within one year	120,986	150,420
Between one to two years	44,863	82,504
Between two to five years	21,500	68,621
	<u>187,349</u>	<u>301,545</u>

30. SHARE CAPITAL

	Notes	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 April 2003 and 1 April 2004		0.10	30,000,000,000	3,000,000
Reduction of authorised share capital	(a)	0.10	(20,000,000,000)	(2,000,000)
At 31 March 2005		0.10	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
At 1 April 2003 and 1 April 2004		0.10	882,448,924	88,245
Rights issue of shares at a price of HK\$0.11 per rights share	(b)	0.10	441,224,462	44,122
At 31 March 2005		0.10	<u>1,323,673,386</u>	<u>132,367</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

30. SHARE CAPITAL - *continued*

Notes:

- (a) 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. Details of this are set out, inter alia, in the circular of the Company dated 29 June 2004 issued by the Company. A resolution approving the proposed reduction was passed at the special general meeting of the Company held on 28 July 2004.
- (b) Rights issue of 441,224,462 shares of HK\$0.10 each at a subscription price of HK\$0.11 per rights share were allotted to the shareholders of the Company in proportion of one rights share for every two existing shares then held. The Company raised HK\$47,500,000 (net of expenses), out of which HK\$40,000,000 was used to repay the Group's bank borrowings and the balance was used for general working capital purpose.

All shares issued rank *pari passu* with the then existing shares in issue in all respects.

31. SHARE OPTION SCHEME

The Company has a share option scheme (the "Scheme") approved at the special general meeting of the Company held on 18 February 2002 (the "Adoption Date"). Under the Scheme the directors of the Company may at their absolute discretion grant options to any employee(s) including executive or non-executive directors of the Group or associated companies, controlling shareholders, business partners, joint venture partners, contractors, agents, representatives, suppliers, customers, landlords, tenants, advisers or consultants of the Group (including any company controlled by any of the above persons) 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 its shares for the benefit of the Company and its shareholders as a whole and as rewards for the participants' contribution or potential contribution to the Group. The Scheme will expire on 18 February 2012.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and other share option schemes of the Company must not exceed 10% of the shares in issue on the Adoption Date. 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 director 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 and to be granted to such person in the 12-month period representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value, based on the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of each grant, 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

31. SHARE OPTION SCHEME - *continued*

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 and his associates abstaining from voting.

The offer of the grant of options must be accepted within 30 days from the date of offer with the payment of a nominal consideration of HK\$1. The exercise period of the share options is determined by the directors of the Company and shall not expire later than ten years from the date of offer. 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 a share of the Company 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.

A summary of the movements of the Company's share options during the year ended 31 March 2005 is as follows:

Grantee	Date of grant	Exercise period	Exercise price HK\$ (Note 2)	Number of share options (adjusted as appropriate)					Share price at grant date of options HK\$ (Note 3)
				At 1 April 2004	Granted during the year	Adjustment*	Lapsed during the year	At 31 March 2005	
Employees	20 February 2004	20 February 2004	0.144	88,000,000	—	(88,000,000)	—	—	0.143
		to 19 August 2004 (Note 1)	0.138*	—	—	132,000,000	(132,000,000)	—	—
	18 November 2004	18 November 2004 to 17 March 2005 (Note 1)	0.131	—	132,360,000	—	(132,360,000)	—	0.125

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

Grantee	Date of grant	Exercise period	Exercise price HK\$ (Note 2)	Number of share options			Share price at grant date of options HK\$ (Note 3)
				At 1 April 2003	Granted during the year	At 31 March 2004	
Employees	20 February 2004	20 February 2004 to 19 August 2004 (Note 1)	0.144	—	88,000,000	88,000,000	0.143

No share options were exercised or cancelled during both years.

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

31. SHARE OPTION SCHEME - *continued*

Notes:

- (1) The share options have no vesting period and are exercisable from the date of grant.
 - (2) The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the share capital of the Company.
 - (3) 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.
- * The number of share options and the corresponding exercise price have been adjusted as a result of the rights issue of shares of the Company in June 2004.

32. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
THE COMPANY					
At 1 April 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	1,117,131	895,932	48,369	(1,785,508)	275,924
Reductions of share premium and capital reserve and offsetting accumulated losses (Note)	(1,117,131)	(895,932)	227,555	1,785,508	—
Rights issue of shares at a price of HK\$0.11 per rights share	4,412	—	—	—	4,412
Net profit for the year	—	—	—	627,880	627,880
2004 final dividend paid	—	—	(6,618)	—	(6,618)
At 31 March 2005	4,412	—	269,306	627,880	901,598

Note:

As announced by the Company on 26 July 2004, the Company proposed to effect the reductions of certain reserves of the Company as follows:

- (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 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.

Details of the proposal are set out in the circular dated 30 July 2004 issued by the Company. The resolution approving the proposal was passed at the special general meeting of the Company held on 23 August 2004.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

32. RESERVES - *continued*

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 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.

The contributed surplus of the Company represents the sum of (i) 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, and (ii) the credit arising from the reductions of certain reserves of the Company in August 2004 as described above.

The contributed surplus of the Group represents the credit arising from the reductions of certain reserves of the Company in August 2004 as described above.

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's reserves available for distribution to shareholders at 31 March 2005 are as follows:

	HK\$'000
Contributed surplus	269,306
Accumulated profits	627,880
	<hr/>
	897,186
	<hr/> <hr/>

The Company had no distributable reserve at 31 March 2004.

At 31 March 2005, the accumulated profits of the Group include accumulated losses of HK\$1,043,000 (2004: HK\$3,919,000) attributable to the associates.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

33. 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 2003	1,912	(1,687)	225
Charge (credit) to income statement	2,375	(2,111)	264
Effect of change in tax rate			
- charge (credit) to income statement	179	(158)	21
	<hr/>	<hr/>	<hr/>
At 31 March 2004	4,466	(3,956)	510
Charge (credit) to income statement	5,487	(4,280)	1,207
	<hr/>	<hr/>	<hr/>
At 31 March 2005	<u>9,953</u>	<u>(8,236)</u>	<u>1,717</u>

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

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Tax losses	104,029	283,179
Accelerated tax depreciation	226	37,041
Miscellaneous allowance	16,850	8,784
	<hr/>	<hr/>
	<u>121,105</u>	<u>329,004</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

33. DEFERRED TAXATION - *continued*

At 31 March 2005, the Group has unused tax losses of HK\$151,092,000 (2004: HK\$305,785,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$47,063,000 (2004: HK\$22,606,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$104,029,000 (2004: HK\$283,179,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely except the losses of HK\$28,481,000 (2004: HK\$15,202,000) which will expire as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Year of expiry		
2022	1,821	1,821
2023	2,163	2,163
2024	11,225	11,218
2025	13,272	—
	<hr/>	<hr/>
	28,481	15,202
	<hr/> <hr/>	<hr/> <hr/>

Other deductible temporary differences of HK\$17,076,000 (2004: HK\$45,825,000) 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 2005, the Company has unused tax losses of HK\$7,835,000 (2004: HK\$3,934,000) 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 2005

34. ACQUISITION OF A SUBSIDIARY

During the year ended 31 March 2005, the Group acquired the entire issued shares of EPML from Mr. Koon Wing Yee and Mr. Tsang Yiu Kai, directors of the Company, for a cash consideration of approximately HK\$15,000. Acquisition of the subsidiary was accounted for by the acquisition method of accounting.

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.

	2005 HK\$'000	2004 HK\$'000
Net assets acquired		
Amounts due from shareholders	—	1,131
Bank balances and cash	22	971
Other payables	(7)	—
Minority interests	—	(209)
	<u>15</u>	<u>1,893</u>
Goodwill on acquisition	—	104
	<u>15</u>	<u>1,997</u>
Total consideration		
	<u>15</u>	<u>1,997</u>
Satisfied by:		
Cash	15	1,043
Reclassification of interest in a jointly controlled entity	—	954
	<u>15</u>	<u>1,997</u>
Net cash inflow (outflow) of cash and cash equivalents in respect of the acquisition of a subsidiary:		
Cash consideration paid	(15)	(1,043)
Bank balances and cash acquired	22	971
	<u>7</u>	<u>(72)</u>

The subsidiaries acquired during the years ended 31 March 2005 and 2004 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 2005

35. DISPOSAL OF SUBSIDIARIES/A SUBSIDIARY

During the year ended 31 March 2005, the Group agreed to sell the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000, subject to adjustment, as described in the sale and purchase agreement dated 5 March 2004. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The total consideration shall be satisfied in cash, of which HK\$50,000,000 was received 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). The adjustment was finalised on 16 June 2005 (see note 42) and the revised consideration was determined to be HK\$38,880,000 and accordingly, an amount of HK\$11,120,000 was recognised as consideration repayable in the consolidated balance sheet at 31 March 2005.

During the year ended 31 March 2004, the Group disposed of the entire issued share capital of Touch Profits Limited to an outside party at an aggregate consideration of HK\$84,000,000. Details of the transaction are set out in note 24.

	2005 HK\$'000	2004 HK\$'000
Net assets disposed of		
Property, plant and equipment	14,529	—
Inventories	3,010	—
Other investments	—	20,000
Trade and other receivables	19,973	—
Bank balances and cash	423	—
Trade and other payables	(10,752)	—
Bills payable	(1,837)	—
Bank loans	(8,775)	—
	<hr/> 16,571	<hr/> 20,000
Gain on disposal of subsidiaries/a subsidiary		
- realised	14,149	63,950
- unrealised	7,935	—
	<hr/> 38,655	<hr/> 83,950
Total consideration	<hr/> <hr/> 38,655	<hr/> <hr/> 83,950

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



35. DISPOSAL OF SUBSIDIARIES/A SUBSIDIARY - *continued*

	2005 HK\$'000	2004 HK\$'000
Satisfied by:		
Cash consideration		
- Cash received	50,000	5,000
- Consideration (repayable) receivable	(11,120)	79,000
Expenses incurred in connection with the disposal of subsidiaries/a subsidiary	(225)	(50)
	38,655	83,950
Net cash inflow of cash and cash equivalents in respect of the disposal of subsidiaries/a subsidiary:		
Cash received	50,000	5,000
Expenses incurred in connection with the disposal of subsidiaries/a subsidiary	(225)	(50)
Bank balances and cash disposed of	(423)	—
	49,352	4,950

The results and cashflows of the subsidiaries disposed of during the year ended 31 March 2005 are set out in note 6(b).

The subsidiary disposed of during the year ended 31 March 2004 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 2005

36. DEEMED DISPOSAL OF A SUBSIDIARY

	2005 HK\$'000	2004 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)
	—	(21,329)
Gain on deemed disposal of a subsidiary	—	19,317
	—	(2,012)
Represented by:		
Interests in associates - share of net liabilities	—	(2,012)
Net cash outflow of cash and cash equivalents in connection with the deemed disposal of a subsidiary:		
Bank balances and cash disposal of	—	(17,822)

The results and cashflows of the subsidiary deemed to be disposed of during the year ended 31 March 2004 are set out in note 6(a).

37. PLEDGE OF ASSETS

At 31 March 2005, leasehold land and buildings, and investment properties with carrying amount of HK\$9,337,000 (2004: HK\$9,558,000) and HK\$619,010,000 (2004: HK\$478,400,000), respectively, have been pledged to banks to secure the bank borrowings granted to the Group.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Bills discounted with recourse	3,441	5,719	—	—
Corporate guarantees given to banks in respect of credit facilities granted to subsidiaries	—	—	188,913	301,545
	<u>3,441</u>	<u>5,719</u>	<u>188,913</u>	<u>301,545</u>

39. CAPITAL COMMITMENTS

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

40. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Minimum lease payments recognised in the consolidated income statement during the year	<u>3,130</u>	<u>4,844</u>

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	
	2005 HK\$'000	2004 HK\$'000
Within one year	2,727	3,993
In the second to fifth year inclusive	1,686	7,952
After five years	—	1,795
	<u>4,413</u>	<u>13,740</u>

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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

40. OPERATING LEASE ARRANGEMENTS - *continued*

The Group as lessor

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Property rental income earned during the year	24,345	23,074
Less: Outgoings	(725)	(703)
Net rental income	<u>23,620</u>	<u>22,371</u>

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within one year	24,224	21,448
In the second to fifth year inclusive	<u>11,610</u>	<u>18,451</u>
	<u>35,834</u>	<u>39,899</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



41. 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	
	2005	2004
	HK\$'000	HK\$'000
Gross employers’ contributions	811	835
Less: Forfeited contributions utilised to offset employers’ contributions for the year	—	(61)
Net employers’ contributions charged to the consolidated income statement	<u>811</u>	<u>774</u>

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 2005

42. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 March 2005:

- (a) As announced by the Company on 22 February 2005, the Group proposed to dispose of certain of its investment properties at an aggregate consideration of HK\$220,000,000 to an outside party. This proposal was approved by shareholders of the Company at a special general meeting held on 22 April 2005 and the transactions will be completed by August 2005. Loss on disposal of investment properties amounted to approximately HK\$1,000,000.

Details of this proposal are set out, inter alia, in the circular of the Company dated 6 April 2005.

- (b) As announced by the Company on 16 June 2005, the consideration of the disposal of the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance was adjusted downwards from the original amount of HK\$65,000,000 to HK\$38,880,000 based on the adjustment mechanism as described in the sale and purchase agreement dated 5 March 2004. According to the adjustment mechanism, when seven times of the audited consolidated results of Po Cheong and its subsidiary is less than HK\$65,000,000 for the year ended 31 March 2005, the consideration for the disposal shall be adjusted downwards by the amount of such shortfall. As a result, instead of paying the balance of the consideration of HK\$15,000,000, the Group shall compensate the wholly-owned subsidiary of Asia Alliance for an amount of HK\$11,120,000. The adjusting post balance sheet event has already been reflected in the consolidated financial statements of the Company for the year ended 31 March 2005.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2005 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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

43. 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	
Easyknit Properties Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1,000	100%	—	Investment holding
Easyknit Properties Management Limited	Hong Kong	Ordinary HK\$10,000	—	100%	Property management
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
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
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

* 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.

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 2005.



FINANCIAL SUMMARY

RESULTS

	Year ended 31 March				2005 HK\$'000
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	
Turnover	659,887	694,262	687,652	706,044	590,001
Profit (loss) before taxation	157,961	(5,318)	(7,094)	134,875	366,242
Taxation	(14,650)	(5,254)	(21,044)	(2,459)	(9,889)
Profit (loss) before minority interests	143,311	(10,572)	(28,138)	132,416	356,353
Minority interests	—	1,173	3,267	8,414	—
Net profit (loss) for the year	143,311	(9,399)	(24,871)	140,830	356,353

ASSETS AND LIABILITIES

	At 31 March				2005 HK\$'000
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	
Total assets	773,672	845,844	959,763	1,041,132	1,328,097
Total liabilities	(427,658)	(374,402)	(434,414)	(373,917)	(262,613)
Minority interests	—	705	1,036	—	—
Shareholders' funds	346,014	472,147	526,385	667,215	1,065,484



SUMMARY OF PROPERTIES

As at 31 March 2005

A. INVESTMENT PROPERTIES

Location	Purpose	Approximate gross floor/ saleable area (sq. ft.)	Lease term
1. Easy Tower No. 609 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, No. 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	8,514	Medium
4. 2nd Floor, Nos. 790, 792 and 794 Cheung Sha Wan Road, Kowloon	Industrial	2,997	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	1,479	Long



SUMMARY OF PROPERTIES

As at 31 March 2005

A. INVESTMENT PROPERTIES - *continued*

Location	Purpose	Approximate gross floor/ saleable area (sq. ft.)	Lease term
7. Ground Floor, No. 50 Yun Ping Road, Causeway Bay, Hong Kong	Commercial	900	Long
8. Ground Floor and Cockloft No. 31 Granville Road, Tsim Sha Tsui, Kowloon	Commercial	2,002	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 floor area (sq. ft.)	Percentage of interest	Lease term
Upper Floors Residential Units of Fa Yuen Plaza, No. 19 Fa Yuen Street, Mongkok, Kowloon	Residential	6,360	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 I, Function Room Level (B1), The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Tuesday, 23 August 2005, at 9:00 a.m. 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 2005.
2. To declare a final dividend of 0.5 HK cent per share for the year ended 31 March 2005.
3. To re-elect directors and to authorise the board of directors to fix the directors’ remuneration.
4. To re-appoint Messrs. 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 the following resolutions as Ordinary Resolutions:

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
- (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

“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.”

- (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.”



NOTICE OF ANNUAL GENERAL MEETING

6. As special business, to consider and, if thought fit, pass the following resolution as a Special Resolution:

Special Resolution

“**THAT** the Bye-Laws of the Company adopted on 28 July 2004 be amended as follows:

(a) By deleting Bye-Law 99 in its entirety and substituting therefor the following new Bye-Law 99:

“99. Notwithstanding any other provisions in the Bye-Laws or other terms on which any Director may be engaged, every Director, including those appointed for a specific term, shall be subject to retirement by rotation at the annual general meeting no later than the third annual general meeting after he was last elected or re-elected and the Directors to retire at every annual general meeting shall be decided by the Board. The retiring Directors shall be eligible for re-election. The Company at any general meeting at which any Directors retire may fill the vacated offices.”

(b) By deleting the existing Bye-Laws 102.(A) and (B) and substituting therefor the following Bye-Laws:

“102. (A) The Company may from time to time in general meeting by Ordinary Resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at the meeting. The Directors to retire at the annual general meeting pursuant to this Bye-Law 102.(A) shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at the annual general meeting.

(B) The Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the shareholders in general meeting. Any Director so appointed shall hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at the meeting. The Directors to retire at the annual general meeting pursuant to this Bye-Law 102.(B) shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at the annual general meeting.”

(c) By deleting the last sentence in Bye-Law 103, and substituting therefor the following sentence:

“The period for lodgment of such notices required under this Bye-Law will be at least seven (7) days, and will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date appointed for such general meeting.”

(d) By deleting the words “(save and except for the Managing Director and the Chairman)” where they appear in Bye-Law 113;



NOTICE OF ANNUAL GENERAL MEETING

- (e) By deleting the section headnote “Chairman and Other Officers” where it appears before Bye-Law 119 and substituting therefor the section headnote “President and Other Officers”, and similarly changing the relevant entry in the “Table of Contents” to the Bye-Laws.”

By Order of the Board of
Easyknit International Holdings Limited
Koon Wing Yee
President and Chief Executive Officer

Hong Kong, 29 July 2005

Notes:

1. A shareholder 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 shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder 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 notarially 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 said meeting or adjourned meeting, and in default the form of proxy should not be treated as valid.
4. Completion and return of the form of proxy will not preclude shareholders 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 Thursday, 18 August 2005 to Tuesday, 23 August 2005 (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 Wednesday, 17 August 2005.
6. A circular containing further information concerning the re-election of directors and Resolutions 5(A), 5(B), 5(C) and 6 will be sent to shareholders together with the Company’s 2004/2005 Annual Report.