EASYKNIT INTERNATIONAL HOLDINGS LIMITED
永 義 國 際 集 團 有 限 公 司

(Stock Code : 1218)

05/06 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Tse Wing Chiu, Ricky
(President and Chief Executive Officer)
Ms. Lui Yuk Chu *(Vice President)*

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. Tsui Chun Kong *(Chairman)*
Mr. Wong Sui Wah, Michael
Mr. Jong Koon Sang

EXECUTIVE COMMITTEE

Mr. Tse Wing Chiu, Ricky *(Chairman)*
Ms. Lui Yuk Chu

COMPANY SECRETARY

Mr. Chan Po Cheung

QUALIFIED ACCOUNTANT

Mr. Chan Po Cheung

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

Hang Seng Bank Limited

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
65 Front Street
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

1218

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 2006.

FINANCIAL RESULTS

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK$489,715,000, representing a decrease of approximately 17.0% from last year (2005: approximately HK$590,001,000). The decrease was mainly due to the cancellation of quota system which affected the price that the Group tagged and reduction in the residential units available for sale of Fa Yuen Plaza in Mongkok during the year under review.

Gross profit fell approximately 30.6% to approximately HK$89,360,000 (2005: approximately HK$128,820,000), primarily because of shrinking profit margins amid increasingly fierce competition in the garment sourcing and export industry.

Profit attributable to shareholders dropped approximately 50.4% to approximately HK$172,851,000 (2005: approximately HK$348,469,000), which was largely due to the impairment loss on trade and other receivables of approximately HK$33,513,000 and share of loss of associates of approximately HK$4,548,000. This was partly offset by the gain arising on change in fair value of investment properties of approximately HK$189,730,000 and decrease in cost of sales. Basic earnings per share went down by approximately 54.2% to approximately HK$0.131 (2005: approximately HK$0.286).

Cost of sales dropped by approximately 13.2% to approximately HK$400,355,000 (2005: approximately HK$461,181,000), reflecting the decrease in sales for the year under review. The total operating expenses reduced by approximately 18.5% to approximately HK$62,148,000 (2005: approximately HK$76,218,000) as a result of imposing stringent cost control measures.

Finance costs increased by approximately 29.2% to approximately HK$4,609,000 (2005: approximately HK$3,566,000), principally due to the increase in interest rate during the year under review.

BUSINESS REVIEW

During the year ended 31 March 2006, the Group was principally engaged in sourcing and exporting of cotton-based knitted garments for infants, children and women and property investment.

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 93.7% to the Group's total turnover, an approximately 5.7% increase as compared to that of last year (2005: approximately 88.0%). However, turnover from this segment diminished by approximately 11.7% to approximately HK$458,666,000 (2005: approximately HK$519,490,000). This segment suffered a loss of approximately HK$21,342,000 (2005: a profit of approximately HK$23,667,000), largely due to the impairment loss on trade and other receivables of approximately HK$33,315,000 provided in respect of the deposits to a supplier paid by the Group as a result of the voluntary liquidation of such supplier, details of which are set out in the Company's announcement dated 3 November 2005. The Group continued to alter its product mix to cater for the changes in customer needs. The product mix of infant wear and ladies wear changed from 35: 56 for the year ended 31 March 2005 to 38: 46 for the year under review.

Geographically, the United States of America (the "US") remained to be the Group's major export market, from which approximately 86.3% of the Group's total turnover was generated (2005: approximately 79.5%).

The Hong Kong, European, Mexican and Canadian markets accounted for approximately 6.3%, 5.6%, 1.7% and 0.1% of the Group's total turnover respectively.

Property investment

For the year ended 31 March 2006, the property investment segment contributed approximately HK$31,049,000 or 6.3% to the Group's total turnover (2005: approximately HK$63,535,000 or 10.8%). Profit generated from this business segment went up approximately 25.1% to approximately HK$212,484,000 (2005: approximately HK$169,889,000), principally due to the gain arising on change in fair value of investment properties of approximately HK$189,730,000. This was partly offset by the decrease in rental income following the disposal of two properties in The Annex Land Building of Excelsior Plaza, Causeway Bay, Hong Kong (the "Properties") on 3 August 2005. Rental income from investment properties, which are all located in Hong Kong reduced to approximately HK$22,432,000 (2005: approximately HK$24,345,000). The average rental income of the Group decreased nearly 7.9% during the year under review. As at 31 March 2006, the Group's commercial rental properties were 100% leased. Its industrial rental properties also continued to maintain a high occupancy rate of 89%. The building management fee income during the year under review was approximately HK$268,000 (2005: approximately HK$173,000).

The sale of residential units of Fa Yuen Plaza in Mongkok generated approximately HK$8,349,000 cash inflow to the Group during the year under review (2005: approximately HK$39,017,000). As at 31 March 2006, approximately 88% of the available units were sold with the average selling price per square foot gross floor area increased from approximately HK$3,500 to approximately HK$4,100 during the year under review.

As at 31 March 2006, the Group's entire property portfolio stood over HK$604,126,000 (31 March 2005: approximately HK$641,594,000).

PROSPECTS

Garment sourcing and export

Although the re-imposition of the textile quotas by the US and the European Union still affects the Group's garment export business, the directors anticipate that the garment business of the Group will remain stable in view of the stable customer base and customer orders.

The Group will continue to retain and strengthen its well-developed sales network and business relationship with its existing clients and explore collaboration opportunities with potential customers. The Group will also expand its product range with infant wear as the focus in order to enlarge its income base.

Property investment

Commercial property investment will be the focal strategic development of the Group in the future. According to a recent international research on global rental expenditure, the office rental expenditure in Hong Kong ranked third globally and reached its peak in 2005. In addition, during the year under review, Hong Kong recorded a steady economic growth. According to the figures from the Hong Kong Trade Development Council, the real Gross Domestic Product has experienced continuous growth over the last two years, which has favoured the retail market in Hong Kong. Furthermore, sight-seeing spots in Hong Kong such as Ocean Park, Ngong Ping 360 and the Hong Kong Wetland Park, and the expanded Individual Visit Scheme have also helped boosting tourism and the retail industry in Hong Kong. Rental income is thus expected to increase, especially in prime areas such as Causeway Bay, Tsimshatsui and Mongkok. In light of the above favourable conditions to the local property market, the Group will grasp the business opportunities arisen and further strengthen its property investment in the territory in order to enhance its property portfolio and shareholders' returns.

Besides, the Group also regards the property market in Macau as a potential investment opportunity. As the gambling business in Macau flourishes, the Group believes that tourism and the retail market in Macau will grow dramatically. The Group will identify potential property development opportunities in Macau in a bid to expand its property portfolio outside Hong Kong.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 March 2006, the Group financed its operations mainly by the net proceeds from the disposal of the Properties (as defined in "Business Review" above), internally generated resources and bank borrowings. The Group's total bank borrowings declined by approximately 98.0% to approximately HK$3,819,000 at 31 March 2006 (31 March 2005: approximately HK$187,349,000 (but excluding obligations under finance leases)), which are all short-term borrowings. All the loans are secured and denominated in Hong Kong dollars and US dollars with prevailing market interest rates. The Group's borrowings are mostly event driven, with little seasonality. As at 31 March 2006, the shareholders' fund of the Group amounted to approximately HK$1,030,928,000 (31 March 2005: approximately HK$1,053,688,000). The Group's gearing ratio, which was calculated on the basis of the total borrowings to the shareholders' fund, decreased substantially from approximately 0.178 as at 31 March 2005 to approximately 0.004 as at 31 March 2006.

The Group continued to sustain a good liquidity position. As at 31 March 2006, the Group had net current assets of approximately HK$281,721,000 (31 March 2005: approximately HK$472,509,000) and cash and cash equivalents of approximately HK$174,580,000 (31 March 2005: approximately HK$83,901,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and US dollars. As at 31 March 2006, the current ratio of the Group was approximately 4.78 (31 March 2005: approximately 3.43), which was calculated on the basis of current assets of approximately HK$356,172,000 (31 March 2005: approximately HK$667,042,000) to current liabilities of approximately HK$74,451,000 (31 March 2005: approximately HK$194,533,000). The improvement in the current ratio was mainly due to repayment of the majority of the Group's borrowings during the year ended 31 March 2006. During the year under review, the Group serviced its debts primarily through the proceeds from the disposal of the Properties and internally generated resources. Final dividend for the year ended 31 March 2005 amounting to approximately HK$6,618,000 was paid in September 2005.

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

The Group has no debt securities or other capital instruments as at 31 March 2006 and up to the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions or disposal of subsidiaries or associates during the year ended 31 March 2006.

CHARGES ON GROUP ASSETS

As at 31 March 2006, certain leasehold properties and investment properties of the Group with carrying amounts of approximately HK$9,116,000 (31 March 2005: approximately HK$9,337,000) and approximately HK$588,000,000 (31 March 2005: approximately HK$619,010,000), 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 2006, the Group spent approximately HK$1,077,000 (2005: approximately HK$1,589,000) on acquisition of property, plant and equipment.

As at 31 March 2005 and 31 March 2006, the Group had no significant capital commitments.

CONTINGENT LIABILITIES

As at 31 March 2006, the outstanding amount of the Group's banking facilities utilised to the extent of approximately HK$8,333,000 (31 March 2005: approximately HK$188,913,000) were supported by the Company's corporate guarantees given to the banks and the Group did not have bills discounted with recourse under the contingent liabilities (31 March 2005: approximately HK$3,441,000).

Save as disclosed above, the Group did not have any significant contingent liabilities as at 31 March 2006.

SIGNIFICANT INVESTMENT

As at 31 March 2006, the Group had significant investments in a portfolio of equity securities listed in Hong Kong, which comprised available-for-sale investments of approximately HK$93,987,000 and investments held for trading of approximately HK$3,600,000 (31 March 2005: other investments of approximately HK$244,030,000). All these investments were stated at fair value and their fair values were determined by reference to the bid prices quoted in active markets.

The available-for-sale investments of approximately HK$8,255,000 represented 33,286,100 shares of Capital Estate Limited ("Capital Estate"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") acquired by the Group during the year under review (the "Aggregated Acquisition"). The Aggregated Acquisition constitutes a discloseable transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and its details are set out in the circular of the Company dated 14 November 2005. Due to the changes in the issued share capital of Capital Estate, the number of shares held by the Group therein has been adjusted to 166,430,500, representing approximately 12.56% and 9.83% of the issued share capital of Capital Estate as at 31 March 2006 and the date of this report, respectively.

In respect of the listed securities performance for the year under review, the Group recorded gain on fair value changes of investments held for trading of approximately HK$12,000 (2005: unrealised gain on other investments of approximately HK$158,579,000).

Save as disclosed above, the Group did not have any significant investment held or any significant investment plans as at 31 March 2006.

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 2006, the number of employees of the Group in Hong Kong and the US was about 60 and 16 respectively. Staff costs (including directors' emoluments) amounted to approximately HK$27,152,000 for the year under review (2005: approximately HK$27,798,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set up the Mandatory Provident Fund Scheme for the Hong Kong's 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.

Tse Wing Chiu, Ricky
President and Chief Executive Officer

Hong Kong, 21 July 2006

EXECUTIVE DIRECTORS

Mr. Tse Wing Chiu, Ricky *President and Chief Executive Officer*

Mr. Tse, aged 48, is an executive director, President, Chief Executive Officer and authorised representative of the Company and a member and Chairman of the Executive Committee of the Board. He is also an executive director, Chairman, Chief Executive Officer, authorised representative and a member and Chairman of the Executive Committee of the board of directors of Easyknit Enterprises Holdings Limited ("Easyknit Enterprises"). Mr. Tse obtained a Master's Degree in Business Administration from Adam Smith University of America in the US in 1996. He has over 30 years of experience in garment manufacturing and merchandising. He serves as director of various subsidiaries of the Company and Easyknit Enterprises. Mr. Tse was appointed to the Board in November 2005.

Ms. Lui Yuk Chu *Vice President*

Ms. Lui, aged 48, is an executive director and Vice President of the Company and a member of the Executive Committee of the Board. She is a co-founder of the Group. She is also an executive director and Deputy Chairman and a member of the Executive Committee of the board of directors of Easyknit Enterprises. Ms. Lui has been involved in the textiles industry for more than 28 years and has extensive experience in design, manufacturing, marketing and distribution of apparel. She serves as director of various subsidiaries of the Company and Easyknit Enterprises. Ms. Lui was appointed to the Board in September 1994.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Sui Wah, Michael

Mr. Wong, aged 47, is a member and Chairman of the Audit Committee of the Board and a member of the Remuneration Committee of the Board. He 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 obtained his B.A. Degree from McMaster University in Canada in 1981 and his LL.B. from University of London in the United Kingdom, where he attended King's College, in 1984. He is also the Company Secretary of Raymond Industrial Limited, a company listed on the Stock Exchange. Mr. Wong was appointed to the Board in October 2000.

Mr. Tsui Chun Kong

Mr. Tsui, aged 55, is a member and Chairman of the Remuneration Committee of the Board and a member of the Audit Committee of the Board. He obtained a Master's 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 33 years of 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 and worked for a few listed companies. Mr. Tsui is now practising as a public accountant under his own name. Mr. Tsui was appointed to the Board in September 2004.

Mr. Jong Koon Sang

Mr. Jong, aged 57, is a member of the Audit Committee and Remuneration Committee of the Board. He 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 the Chartered Management Institute, England and an associate member of The Taxation Institute of Hong Kong. Mr. Jong is currently the Chairman of Student Education sub-committee of The Association of International Accountants, Hong Kong Branch, the accountant ambassador of The Hong Kong Institute of Certified Public Accountants and Honorary Vice President of Accounting Student Society of Hong Kong University of Science and Technology. He is also a director of Hong Kong Cheshire Home Foundation and a member of Hospital Governing Committee (HGC) of Cheshire Home Shatin. Mr. Jong has over 37 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

Mr. Chan Po Cheung — *Chief Financial Officer and Company Secretary*

Mr. Chan, aged 49, joined the Group in December 2005. He is the Chief Financial Officer, Company Secretary, Qualified Accountant and authorised representative of the Company. Mr. Chan is a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. He has over 20 years of experience in the accountancy field.

Miss Leung Siu Mei — *Assistant General Manager*

Miss Leung, aged 46, joined the Group in 1992 and was promoted to her current position in 1994. She is responsible for the Group's financial and administration management.

Miss Ho Yuen Yi — *Assistant General Manager*

Miss Ho, aged 50, joined the Group in 2005. She is responsible for the Group's merchandising, shipping and quality control.

Mr. Chan Chung Shun — *Property Manager*

Mr. Chan, aged 50, 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.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is committed to achieving high standards of corporate governance by emphasising transparency, independence, accountability, responsibility and fairness. The Board strives to ensure that effective self-regulatory practices exist to protect the interests of the shareholders of the Company and to enhance long-term shareholder value.

During the year ended 31 March 2006, the Company has applied the principles of the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and has complied with all the code provisions of the Code except for the Code provision C.2 on internal controls (which will be implemented for accounting periods commencing on or after 1 July 2005) and the following deviations. The Company has taken active steps to correct some of the deviations during the year. Nevertheless, none of the deviations remained is considered by the Board to be material or inappropriate given the size, nature and circumstances of the Group.

Code provision A.2.1

Mr. Tse Wing Chiu, Ricky was appointed as Vice President of the Company on 15 November 2005. He was re-designated from Vice President to President and appointed as Chief Executive Officer on 20 January 2006. The office of President is equivalent to that of the Chairman for the purpose of the Company's Bye-laws and the Companies Act 1981 of Bermuda (as amended). The Board considers that the combination of the roles of President and Chief Executive Officer will not impair the balance of power and authority between the Board and the management of the Company as the Board will meet regularly to consider major matters affecting the operations of the Group. The Board is of the view that this structure provides the Group with strong and consistent leadership, which can facilitate the formulation and implementation of its strategies and decisions and enable it to grasp business opportunities and react to changes efficiently. As such, it is beneficial to the business prospects of the Group.

Code provision A.4.1

All the non-executive directors of the Company are not appointed for a specific term, but they are subject to retirement by rotation no later than the third annual general meeting after he was last elected or re-elected pursuant to the Bye-laws of the Company.

Code provision A.4.2

At the annual general meeting of the Company held on 23 August 2005, shareholders approved the amendments to the Company's Bye-laws to the effect that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director shall be subject to retirement by rotation no later than the third annual general meeting after he was last elected or re-elected.

Code provision A.5.4

Written guidelines in respect of dealings in securities of the Company by relevant employees were established by the Company on 5 May 2005. Such written guidelines will be issued to the relevant employees of the Group when occasion warrants.

Code provisions B.1.1, B.1.3 and B.1.4

On 5 May 2005, the Remuneration Committee was established with written terms of reference on no less exacting terms than those set out in Code provision B.1.3. The terms of reference were revised in March 2006, resulting in deviations from the Code provisions B.1.3(a) and (b) of the Remuneration Committee's responsibilities to make recommendations to the Board on the issuer's policy and structure for all remuneration of directors and senior management and to determine the specific remuneration packages of all executive directors and senior management respectively. The terms of reference have been revised in such a way that the Remuneration Committee of the Company should make recommendations to the Board on the Company's policy and structure for all remuneration of "directors" only instead of "directors and senior management" and should "review" (as opposed to "determine") and make recommendations to the Board on the remuneration packages of "executive directors" only instead of "executive directors and senior management" for the following reasons:

1. the Remuneration Committee comprises independent non-executive directors only who are not involved in the daily operation of the Group. They may not be industry skilled due to their different backgrounds and professions and may not be knowledgeable about the prevailing remuneration packages for directors and senior management in the industry where the Company is operating. The Remuneration Committee is thus not in a position to properly "determine" the remuneration of the executive directors and senior management;

2. the Remuneration Committee members are not in a position to properly evaluate the performance of senior management due to their limited time involved in the Company's business. The evaluation process is more effectively carried out by the executive directors who devote all of their active business time to the business and affairs of the Group; and

3. the executive directors may not be able to take good control of their subordinates if they are not directly involved In evaluating and determining their subordinates' remuneration. As a result, the efficiency and effectiveness of the Company's operations may be affected.

The revised terms of reference of the Remuneration Committee have been placed on the Company website in March 2006.

Code provisions C.3.3 and C.3.4

The terms of reference of the Audit Committee were revised on 5 May 2005 to comply with the Code provision C.3.3 and have been placed on the Company website since June 2005.

Code provision D.1.2

The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board on 16 December 2005. Such arrangements will be reviewed periodically.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct in relation to directors' securities transactions. All directors of the Company have confirmed, following specific enquiry made by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 March 2006.

BOARD OF DIRECTORS

The Board has reserved for its decision or consideration matters covering mainly the corporate strategy, board composition, material transactions and investments, risk management, internal control and other significant policies and financial matters. The Board has delegated responsibility for day-to-day management of the Group through the Chief Executive Officer down to the executive management. The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board in December 2005. Such arrangement will be reviewed periodically.

During the year, Mr. Tse Wing Chiu, Ricky was appointed as an executive director and Vice President of the Company on 15 November 2005. Mr. Tsang Yiu Kai, a former executive director and Vice President of the Company, resigned as an authorised representative of the Company on 15 November 2005 and all other positions (including Company Secretary and Qualified Accountant of the Company, a member and secretary of the Remuneration Committee and the Executive Committee and secretary of the Audit Committee) from the Company on 10 December 2005. Mr. Koon Wing Yee, a former executive director, President and Chief Executive Officer of the Company, resigned all his positions (including an authorised representative of the Company and a member and Chairman of the Remuneration Committee and the Executive Committee) from the Company on 20 January 2006. Mr. Tse Wing Chiu, Ricky was re-designated to President and appointed as Chief Executive Officer on 20 January 2006. Ms. Lui Yuk Chu was appointed as Vice President on 20 January 2006.

Currently, the Board comprises five directors, of which two are executive directors, namely Mr. Tse Wing Chiu, Ricky and Ms. Lui Yuk Chu and three are independent non-executive directors , namely Mr. Wong Sui Wah, Michael, Mr. Tsui Chun Kong and Mr. Jong Koon Sang. Biographical details of the directors are set out in the "Biographical Details of Directors and Senior Management" on pages 9 to 10 of this annual report.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of a sufficient number of independent non-executive directors and at least one of the independent non-executive directors has appropriate professional qualifications, or accounting or related financial management expertise throughout the financial year ended 31 March 2006.

The Board members have no financial, business, family or other material/relevant relationships with each other.

The Board has met four times during the year ended 31 March 2006. The individual attendance records of the directors at the Board meetings are as follows:

Name of Directors	Number of meetings attended	Attendance rate
Executive Directors		
Mr. Koon Wing Yee (resigned on 20 January 2006)	3/3	100%
Mr. Tsang Yiu Kai (resigned on 10 December 2005)	2/2	100%
Mr. Tse Wing Chiu, Ricky (appointed on 15 November 2005)	2/2	100%
Ms. Lui Yuk Chu	4/4	100%
Independent Non-executive Directors		
Mr. Wong Sui Wah, Michael	3/4	75%
Mr. Tsui Chun Kong	4/4	100%
Mr. Jong Koon Sang	4/4	100%

President and Chief Executive Officer

Mr. Tse Wing Chiu, Ricky currently assumes the roles of both the President and Chief Executive Officer of the Company. The reasons for the deviation from the Code provision A.2.1 are explained in the section headed "Corporate Governance Practices" above.

Retirement and re-election of directors

The Bye-laws of the Company provide that (1) every director is required to retire by rotation at the annual general meeting no later than the third annual 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; and (2) any director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following annual general meeting of the Company (in case of an addition to the Board) and shall then be eligible for re-election at the meeting.

Independent non-executive directors

All the independent non-executive directors of the Company are not appointed for a specific term, but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

The Company has received annual confirmation of independence from each of the three independent non-executive directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive directors are independent within the definition of the Listing Rules.

BOARD COMMITTEES

The Board has established three committees, namely the Remuneration Committee, the Audit Committee and the Executive Committee with clearly defined written terms of reference. Each committee reports back to the Board on its decisions or recommendations after each meeting for further discussion and approval, unless there are legal or regulatory restrictions on its ability to do so.

Remuneration Committee

The Company has established a Remuneration Committee. The terms of reference of the Remuneration Committee are in compliance with the provisions set out in the Code, but with deviations from the Code provisions B.1.3(a) and (b). Details of such deviations are set out in the section headed "Corporate Governance Practices" above.

The Remuneration Committee comprises three independent non-executive directors, namely Mr. Tsui Chun Kong (Committee Chairman), Mr. Wong Sui Wah, Michael and Mr. Jong Koon Sang. It is principally responsible for making recommendations to the Board on the Company's policy and structure for remuneration of directors and ensuring that no director or any of his associates is involved in deciding his own remuneration.

During the financial year ended 31 March 2006, one meeting has been held by the Remuneration Committee. The individual attendance records of the Committee members are as follows:

Name of Committee Members	Number of meetings attended	Attendance rate
Mr. Tsui Chun Kong	1/1	100%
Mr. Wong Sui Wah, Michael	0/1	0%
Mr. Jong Koon Sang	1/1	100%

During the meeting, the Remuneration Committee has reviewed and considered a director remuneration policy and proposed changes to its terms of reference adopted in May 2005, which were subsequently approved and adopted by the Board after its recommendation.

The primary objective of the director remuneration policy is to attract, retain and motivate the Board members by providing fair reward for their contributions to the Group's performance. In this context, the remuneration policy is to set the overall remuneration package at a competitive level and in a form that permits additional remuneration to be earned for high performance over a sustained period. The directors' remuneration packages are determined with reference to the packages paid by comparable listed companies, time commitment and responsibilities of individual directors, the Company's performance and the prevailing market conditions.

The main components of the executive directors' remuneration are director's fee, basic salary, benefits in kind, discretionary performance based bonus, retirement benefits and participation in the share option scheme adopted by the shareholders of the Company in February 2002 (the "Share Option Scheme").

The independent non-executive directors do not receive any discretionary bonus or other benefits from the Company. But each of them is entitled to a director's fee and is eligible for the Share Option Scheme subject to the approval of the shareholders of the Company.

During the year ended 31 March 2006, no director has been involved in deciding his own remuneration.

Audit Committee

The Company has established an Audit Committee. The terms of reference of the Audit Committee are in compliance with the provisions set out in the Code.

The Audit Committee comprises Mr. Wong Sui Wah, Michael (Committee Chairman), Mr. Tsui Chun Kong and Mr. Jong Koon Sang, all of whom are independent non-executive directors. Executive directors, senior management, head of Accounts Department, Qualified Accountant, representatives of the external auditors of the Company (the "Auditors") or other persons are invited to attend the meetings of the Audit Committee as and when required.

The Audit Committee is mainly responsible for assessing the Group's audit arrangements and the Group's system of internal controls, and to review the half-yearly and annual results before publication.

During the financial year ended 31 March 2006, two meetings have been held by the Audit Committee. The individual attendance records of the Committee members are as follows:

Name of Committee Members	Number of meetings attended	Attendance rate
Mr. Wong Sui Wah, Michael	1/2	50%
Mr. Tsui Chun Kong	2/2	100%
Mr. Jong Koon Sang	2/2	100%

The Audit Committee has reviewed with management and the Auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2005 and the audited consolidated financial statements for the year ended 31 March 2006, and with recommendation to the Board for approval.

The Executive Committee

The Executive Committee comprises all the executive directors of the Company, namely Mr. Tse Wing Chiu, Ricky (Committee Chairman) and Ms. Lui Yuk Chu. It meets as and when required between regular Board meetings of the Company, and operates as a general management committee under the direct authority of the Board. Within the parameter of authority delegated by the Board, the Executive Committee sees to the implementation of Group strategy set by the Board, monitors the Group's investment and trading performance, funding and financing requirements, and reviews management performance.

AUDITIORS' REMUNERATION

For the year ended 31 March 2006, the Auditors received approximately HK$689,000 for audit service and approximately HK$2,953,000 for non-audit services related to the interim review, a very substantial disposal, merge and acquisition service and ongoing connected transactions.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board is empowered under the Company's Bye-laws to appoint any person as director either to fill a casual vacancy on or as an additional member of the Board.

A written director nomination policy was adopted by the Board in March 2006 with the intent to provide a set of guidelines for the effective functioning of the Company's director nomination process. The policy stipulates the criteria for identifying director candidates and the procedures for nomination, evaluation and assessment of candidates for directorship. The selection criteria are mainly based on their personal and professional integrity, independent mindedness, commitment to the Company, experience relevant to the Company's business as well as compliance with legal and regulatory requirements.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors acknowledge their responsibilities for preparing the financial statements of the Group. With the assistance of the Accounts Department which is under the supervision of the Qualified Accountant of the Company, the directors ensure the preparation of the financial statements of the Group are in accordance with the statutory requirements and applicable accounting standards. The directors also ensure the publication of the financial statements of the Group is in a timely manner.

The statement of the Auditors regarding their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 26.

COMMUNICATION WITH SHAREHOLDERS

The Company values the views of shareholders and recognises their interests in the Group's strategy and performance. All shareholders are welcome to the annual general meeting of the Company, at which directors of the Board will be available to answer questions from shareholders. Communication is also provided through the annual reports, interim reports, press announcements and circulars issued by the Company from time to time. Shareholders may also contact the Company in writing or visit the Company website www.easyknit.com for information about the Group and its activities.

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

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. During the year, there were no significant changes in the Group's principal activities.

RESULTS

The results of the Group are set out in the consolidated income statement on page 27.

The directors of the Company do not recommend the payment of a dividend.

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier of the Group by itself and together with the other four largest suppliers accounted for approximately 24% and 85%, respectively, of the Group's purchases for the year.

The largest customer of the Group by itself and together with the other four largest customers accounted for approximately 38% and 72%, respectively, of the Group's turnover for the year.

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 35 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK$1,077,000 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 18 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 March 2006 by a firm of independent professional property valuers and the gain arising on change in fair value of investment properties which had been credited directly to consolidated income statement, amounted to approximately HK$189,730,000. Details of these are set out in note 19 to the consolidated financial statements.

PRINCIPAL SUBSIDIARIES

The details of the Company's principal subsidiaries at 31 March 2006 are set out in note 1 to the consolidated financial statements.

PRINCIPAL ASSOCIATES

The details of the Group's principal associates at 31 March 2006 are set out in note 21 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at 31 March 2006 were as follows:

	2006	2005
	HK$'000	HK$'000
Contributed surplus	**269,306**	269,306
Accumulated profits	**687,536**	627,880
	956,842	897,186

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.

DIRECTORS

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

Executive directors:

Tse Wing Chiu, Ricky – *President and Chief Executive Officer*	(appointed as Vice President on 15 November 2005, re-designated from Vice President to President and appointed as Chief Executive Officer on 20 January 2006)
Lui Yuk Chu – *Vice President*	(appointed as Vice President on 20 January 2006)
Koon Wing Yee	(resigned on 20 January 2006)
Tsang Yiu Kai	(resigned on 10 December 2005)

Independent non-executive directors:

Wong Sui Wah, Michael
Jong Koon Sang
Tsui Chun Kong

In accordance with the Company's Bye-law 102(B), Mr. Tse Wing Chiu, Ricky shall hold office until the forthcoming annual general meeting of the Company and, being eligible, offers himself for re-election.

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

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.

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 former 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.

On 3 November 2005, the Company terminated the LTC Agreement in accordance with its terms as Top Star Garment Limited, being a company of the LTC Companies, commenced creditors' voluntary liquidation under Section 228(A) of the Companies Ordinance. The termination of the LTC Agreement was announced by the Company on the same date.

The LTC Transactions and the KPF Transactions for the period from 1 April 2005 to 31 March 2006 amounted to approximately HK$95,298,000 and approximately HK$40,122,000, respectively.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed-upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive directors have reviewed the continuing connected transactions and the reports of the auditors and have confirmed that the transactions have been entered into by the Group:

(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 2006, which do not constitute connected transactions of the Company required to be disclosed under the Listing Rules, are provided under note 17 to the consolidated 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.

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 2006, 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**
Ms. Lui Yuk Chu *(note 1)*	Beneficiary of a trust	486,324,678	36.74%

Note 1: 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).

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

Easyknit Enterprises Holdings Limited (formerly known as "Asia Alliance Holdings Limited") ("Easyknit Enterprises")

Name of director	**Capacity**	**Number of ordinary shares held**	**Approximate percentage to issued ordinary shares of Easyknit Enterprises**
Ms. Lui Yuk Chu *(note 2)*	Beneficiary of a trust	141,085,252	35.93%

Note 2: These shares were registered in the name of and 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).

Wellmake Investments Limited ("Wellmake") *(note 3)*

Name of director	Capacity	Number of non-voting deferred shares held	Percentage to issued non-voting deferred shares of Wellmake
Ms. Lui Yuk Chu	*note 4*	2	100%

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

Note 4: One non - voting deferred share was held by Ms. Lui Yuk Chu as beneficial owner and the other one was held by her spouse, Mr. Koon Wing Yee.

Save as disclosed above, as at 31 March 2006, 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.

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 36 to the consolidated financial statements.

The closing price of the Company's shares on 1 March 2006, being the trading day immediately before the date of grant of the options set out in note 36 to the consolidated financial statements, was HK$0.143.

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

The total number of shares available for issue under the Company's share option scheme as at the date of this report is 133,683,600, representing approximately 6.73% of the issued capital of the Company as at that date.

Save as disclosed above, at no time during the year ended 31 March 2006 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or other body corporate nor had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, 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**
Koon Wing Yee *(note 1)*	Interest of spouse	486,324,678	36.74%
Magical Profits Limited *(notes 1 & 2)*	Beneficial owner	486,324,678	36.74%
Accumulate More Profits Limited *(notes 1 & 2)*	Interest of controlled corporation	486,324,678	36.74%
Trustcorp Limited *(notes 1 & 3)*	Trustee	486,324,678	36.74%
Newcorp Ltd. *(note 3)*	Interest of controlled corporation	486,324,678	36.74%
Newcorp Holdings Ltd. *(note 3)*	Interest of controlled corporation	486,324,678	36.74%
David Henry Christopher Hill *(note 3)*	Interest of controlled corporation	486,324,678	36.74%
David William Roberts *(note 3)*	Interest of controlled corporation	486,324,678	36.74%
Rebecca Ann Hill *(note 3)*	Interest of spouse	486,324,678	36.74%

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). Mr. Koon Wing Yee, a former director of the Company and the spouse of Ms. Luk Yuk Chu, was deemed to be interested in the 486,324,678 shares by virtue of the SFO.

(2) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited and Accumulate More Profits Limited.

(3) Trustcorp Limited was a wholly-owned subsidiary of Newcorp Ltd.. Newcorp Ltd. was wholly-owned by Newcorp Holdings Ltd.. Each of Mr. David Henry Christopher Hill and Mr. David William Roberts was interested in 35% of the issued share capital of Newcorp Holdings Ltd.. Mrs. Rebecca Ann Hill, being the spouse of Mr. David Henry Christopher Hill, was deemed to be interested in the 486,324,678 shares by virtue of the SFO.

Other than as disclosed above, as at 31 March 2006, 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 2006.

EMOLUMENT POLICY

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

The emolument of the directors of the Company is determined by the Board after recommendation from the Remuneration Committee, having regard to the time commitment and responsibilities of the directors, the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to the directors and eligible employees, details of the scheme is set out in note 36 to the consolidated financial statements.

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 approximately HK$1,034,800.

POST BALANCE SHEET EVENTS

The details of the significant post balance sheet events are set out in note 45 to the consolidated 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

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

Tse Wing Chiu, Ricky
President and Chief Executive Officer

Hong Kong, 21 July 2006

Deloitte.
德勤

TO THE SHAREHOLDERS OF EASYKNIT INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Easyknit International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") from pages 27 to 81 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 July 2006

For the year ended 31 March 2006

	NOTES	2006 HK$'000	2005 HK$'000 (Restated)
Turnover	7	**489,715**	590,001
Cost of sales		**(400,355)**	(461,181)
Gross profit		**89,360**	128,820
Other income		**9,386**	5,127
Distribution costs		**(12,689)**	(20,873)
Administrative expenses		**(49,459)**	(55,345)
Gain arising on change in fair value of investment properties		**189,730**	—
Reversal of deficit arising on revaluation of investment properties		**—**	140,690
Gain on fair value changes of investments held for trading		**12**	—
Unrealised gain on other investments		**—**	158,579
Impairment loss on trade and other receivables	9	**(33,513)**	(4,215)
Loss on disposal of investment properties		**(1,136)**	—
Gain on disposal of subsidiaries	10	**—**	14,149
Share of results of associates		**(4,548)**	2,876
Finance costs	11	**(4,609)**	(3,566)
Profit before taxation	12	**182,534**	366,242
Taxation	14	**(9,683)**	(17,773)
Profit for the year attributable to equity holders of the Company		**172,851**	348,469
Earnings per share	16		
Basic		**HK$0.131**	HK$0.286
Diluted		**N/A**	HK$0.285

CONSOLIDATED BALANCE SHEET

At 31 March 2006

	NOTES	2006 HK$'000	2005 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	18	**24,190**	24,435
Investment properties	19	**589,700**	619,970
Intangible asset	20	**921**	921
Interests in associates	21	**62,887**	15,729
Available-for-sale investments	22	**93,987**	—
		771,685	661,055
Current assets			
Properties held for sale	23	**14,426**	21,624
Investments held for trading	24	**3,600**	—
Other investments	25	**—**	244,030
Inventories	26	**7,766**	2,423
Trade and other receivables	27	**72,226**	196,213
Loans receivable	28	**66,053**	71,875
Bills receivable	29	**17,220**	44,925
Tax recoverable		**301**	2,051
Bank balances and cash	30	**174,580**	83,901
		356,172	667,042
Current liabilities			
Trade and other payables	31	**41,754**	37,118
Bills payable	32	**4,514**	1,564
Tax payable		**24,364**	23,727
Obligations under finance leases – amount due within one year	33	**—**	18
Bank borrowings – amount due within one year	34	**3,819**	120,986
Consideration repayable on disposal of subsidiaries	39	**—**	11,120
		74,451	194,533
Net current assets		**281,721**	472,509
		1,053,406	1,133,564

At 31 March 2006

	NOTES	2006 HK$'000	2005 HK$'000 (Restated)
Capital and reserves			
Share capital	35	**132,367**	132,367
Reserves		**898,561**	921,321
		1,030,928	1,053,688
Non-current liabilities			
Bank borrowings – amount due after one year	34	**—**	66,363
Deferred taxation	37	**22,478**	13,513
		22,478	79,876
		1,053,406	1,133,564

The consolidated financial statements on pages 27 to 81 were approved and authorised for issue by the Board of Directors on 21 July 2006 and are signed on its behalf by:

Tse Wing Chiu, Ricky
Director

Lui Yuk Chu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2006

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 *(note a)*	Translation reserve HK$'000	Special reserve HK$'000 *(note b)*	Contributed surplus HK$'000 *(note c)*	Investment revaluation reserve HK$'000	Share option reserve HK$'000	Accumulated (losses) profits HK$'000	Total HK$'000
At 1 April 2004										
– as previously stated	88,245	1,117,131	895,932	—	9,800	—	—	—	(1,443,893)	667,215
– effect of changes in accounting policies *(see note 3)*	—	—	—	—	—	—	—	—	(3,912)	(3,912)
– as restated	88,245	1,117,131	895,932	—	9,800	—	—	—	(1,447,805)	663,303
Profit for the year and total recognised income for the year	—	—	—	—	—	—	—	—	348,469	348,469
Reductions of share premium and capital reserve and offsetting accumulated losses *(see note 35(a))*	—	(1,117,131)	(895,932)	—	—	227,555	—	—	1,785,508	—
Rights issue of shares at a price of HK$0.11 per rights share *(see note 35(b))*	44,122	4,412	—	—	—	—	—	—	—	48,534
2004 final dividend paid	—	—	—	—	—	(6,618)	—	—	—	(6,618)
At 31 March 2005 and 1 April 2005	132,367	4,412	—	—	9,800	220,937	—	—	686,172	1,053,688
Change in fair value of available-for-sale investments	—	—	—	—	—	—	(191,630)	—	—	(191,630)
Share of translation reserve of associates	—	—	—	737	—	—	—	—	—	737
Net income (expenses) recognised directly in equity	—	—	—	737	—	—	(191,630)	—	—	(190,893)
Profit for the year	—	—	—	—	—	—	—	—	172,851	172,851
Total recognised income and expenses for the year	—	—	—	737	—	—	(191,630)	—	172,851	(18,042)
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	1,900	—	1,900
2005 final dividend paid	—	—	—	—	—	—	—	—	(6,618)	(6,618)
At 31 March 2006	132,367	4,412	—	737	9,800	220,937	(191,630)	1,900	852,405	1,030,928

Notes:

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

(b) 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.

(c) The contributed surplus of the Group represents the credit arising from the reduction of certain reserves of the Company in August 2004.

For the year ended 31 March 2006

	2006 HK$'000	2005 HK$'000
Cash flows from operating activities		
Profit before taxation	182,534	366,242
Adjustments for:		
Share of results of associates	4,548	(2,876)
Interest income	(8,387)	(2,118)
Interest expense	4,602	3,559
Finance charges on obligations under finance leases	7	7
Depreciation of property, plant and equipment	1,314	1,619
Impairment loss on trade and other receivables	33,513	4,215
Impairment loss on inventories	663	3,571
Share-based payments expense	1,900	—
Loss on disposal of investment properties	1,136	—
Amortisation of permanent textile quota entitlements	—	884
Gain arising on change in fair value of investment properties	(189,730)	(140,690)
Dividend income from listed investments	(126)	—
Gain on disposal of investments held for trading	(83)	—
Gain on disposal of property, plant and equipment	(54)	(143)
Gain on fair value changes of investments held for trading	(12)	—
Unrealised gain on other investments	—	(158,579)
Gain on disposal of subsidiaries	—	(14,149)
Gain on disposal of other investments	—	(919)
Gain on disposal of permanent textile quota entitlements	—	(2)
Operating profit before movements in working capital	31,825	60,621
Decrease in properties held for sale	7,198	35,062
Increase in inventories	(6,006)	(649)
Decrease in trade and other receivables	90,474	6,312
Decrease (increase) in bills receivable	27,705	(28,524)
Increase (decrease) in trade and other payables	4,636	(7,915)
Increase in bills payable	2,950	2,697
Cash from operations	158,782	67,604
Hong Kong Profits Tax paid	(74)	(1,601)
Hong Kong Profits Tax refunded	1,743	1,719
Net cash from operating activities	160,451	67,722

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2006

	NOTES	2006 HK$'000	2005 HK$'000
Cash flows from investing activities			
Proceeds from disposal of investment properties		**218,864**	—
Interest received		**8,387**	2,118
Net cash inflow (outflow) from loans receivable		**5,822**	(28,598)
Proceeds from disposal of investments held for trading		**2,942**	—
Dividend received from listed investments		**126**	—
Proceeds from disposal of property, plant and equipment		**62**	152
Capital contribution to associates		**(50,969)**	—
Purchase of available-for-sale investments		**(41,587)**	—
Payment of consideration repayable on disposal of subsidiaries		**(11,120)**	—
Purchase of investments held for trading		**(6,447)**	—
Purchase of property, plant and equipment		**(1,077)**	(1,589)
Proceeds from disposal of a subsidiary		**—**	79,000
Disposal of subsidiaries, net of cash and cash equivalents disposed of	39	**—**	49,352
Proceeds from disposal of other investments		**—**	5,158
Acquisition of a subsidiary, net of cash and cash equivalents acquired	38	**—**	7
Proceeds from disposal of permanent textile quota entitlements		**—**	2
Purchase of other investments		**—**	(89,690)
Net cash from investing activities		**125,003**	15,912
Cash flows from financing activities			
Bank borrowings raised		**153,475**	22,660
Repayment of bank borrowings		**(337,005)**	(128,081)
Dividends paid		**(6,618)**	(6,618)
Interest paid		**(4,602)**	(3,559)
Repayment of obligations under finance leases		**(18)**	(19)
Finance charges on obligations under finance leases paid		**(7)**	(7)
Proceeds from issue of new shares		**—**	48,534
Net cash used in financing activities		**(194,775)**	(67,090)
Net increase in cash and cash equivalents		**90,679**	16,544
Cash and cash equivalents at beginning of the year		**83,901**	67,357
Cash and cash equivalents at end of the year, represented by bank balances and cash		**174,580**	83,901

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 addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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.

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

Particulars of the Company's principal subsidiaries as at 31 March 2006 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 Directly	Indirectly	Principal activities
Cheong Ko Investment Company Limited	Hong Kong	Ordinary HK$2 (Non-voting preferred HK$10,000)*	—	100%	Property holding
Easyknit BVI Limited	British Virgin Islands/ Hong Kong	Ordinary US$100	100%	—	Investment holding
Easyknit International Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	100%	—	Investment holding
Easyknit International Trading Company Limited	Hong Kong	Ordinary HK$2	—	100%	Trading of garments
Easyknit Properties Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US$1,000	100%	—	Investment holding
Easyknit 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

1. GENERAL – *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	
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 2006.

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Share-based payments

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

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice 24

By 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any).

From 1 April 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 April 2005, the Group classified its "other investments" with carrying amount of HK$244,030,000 to "available-for-sale investments" and measured them in accordance with the requirements of HKAS 39. No adjustment has been made to the Group's accumulated profits at 1 April 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from 1 April 2005 onwards. As a result, the Group's bills receivable discounted with full recourse which were derecognised prior to 1 April 2005 have not been restated. As at 31 March 2005, the Group's bills receivable discounted with full recourse have not been derecognised. Instead, the related borrowings of approximately HK$3,117,000 have been recognised on the balance sheet date as at 31 March 2006. This change in accounting policy has had no material effect on results for the current year.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. In the opinion of the directors of the Company, the allocation between the land and buildings elements cannot be made reliably. Thus the entire lease is classified as finance lease and continues to be accounted for as property, plant and equipment.

Investment properties

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

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES – *continued*

Deferred taxes related to investment properties

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

The Group has not early applied the following new HKFRSs and HKFRS interpretations ("HK(IFRIC) - INT") that have been issued but are not yet effective. The directors of the Company have commenced considering the potential impact of these new HKFRSs and HKFRS interpretations and anticipate that the adoption of these new HKFRSs and HKFRS interpretations should not result in any significant change in the future as to the results and financial position of the Group.

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

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

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

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

	2006	2005
	HK$'000	HK$'000
Income statement items		
Increase in gain arising on change in fair value of investment properties	**115,621**	—
Increase in administrative expenses in relation to share-based payments expense	**(1,900)**	—
Increase in deferred tax liabilities relating to investment properties	**(4,041)**	(7,884)
Increase (decrease) in profit for the year	**109,680**	(7,884)

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

	31.3.2005	**Retrospective adjustments**	**31.3.2005**	**Prospective adjustments**	**1.4.2005**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Originally stated)		(Restated)		(Restated)
Balance sheet items					
HKAS 39					
Other investments	244,030	—	244,030	(244,030)	—
Bills receivable	—	—	—	3,441	3,441
Available-for-sale investments	—	—	—	244,030	244,030
Bank borrowings – amount due within one year	(120,986)	—	(120,986)	(3,441)	(124,427)
HK(SIC) Interpretation 21					
Deferred tax liabilities	(1,717)	(11,796)	(13,513)	—	(13,513)
Total effects on assets and liabilities		(11,796)		—	
Accumulated profits and total effect on equity	697,968	(11,796)	686,172	—	686,172

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES – *continued*

The cumulative effects of the application of the new HKFRSs as at 31 March 2004 are summarised below:

	31.3.2004 HK$'000 (Originally stated)	**Retrospective adjustments** HK$'000	**31.3.2004** HK$'000 (Restated)
Balance sheet items			
HK(SIC) Interpretation 21			
Deferred tax liabilities and total effect on liabilities	(510)	(3,912)	(4,422)
Accumulated losses and total effect on equity	(1,443,893)	(3,912)	(1,447,805)

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal ordinary course of business, net of discounts.

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

Service income is recognised when services are rendered.

Revenue from sale of developed properties in the ordinary course of business is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

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

Investment properties

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

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

Properties held for sale

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit and loss in subsequent periods.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities other than financial liabilities at fair value through profit or loss ("Other financial liabilities"). The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Intangible assets

On initial recognition, intangible assets with indefinite useful lives including club debenture acquired separately are recognised at cost. After initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment of intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

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

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

Impairment of intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

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

Impairment (other than intangible assets)

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.

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

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Foreign currencies

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

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries 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.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Retirement benefit scheme

Payments to defined contribution retirement benefit scheme are charged as expenses as they fall due.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, management had made the following estimates that have the most significant effect on the amounts recognised in the financial statements.

Impairment allowance on trade receivables

In making the judgement, management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection and also evaluates the discontinued future cash flows of the trade debts on management's judgement. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for doubtful debts has been made in the consolidated financial statements in light of the historical records of the Group and the circumstances of the industry of sourcing and export of cotton-based knitted garments as a whole.

Impairment allowance on loans receivable

The policy for impairment of loans receivable of the Group is based on the evaluation of discounted future cash flows on management's judgement. A considerable amount of judgement is required in estimating the expected future cash flows. If the future estimated cash flows are less than carrying amounts of loans receivables, additional allowances may be required.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, trade and other receivables, loans receivable, bank balances and cash, bank borrowings, trade and other payables and bills payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group has currency exposure as majority of its sales are denominated in U.S. dollars which are linked up with Hong Kong dollars. On the other hand, the expenditures including sourcing of garments are mainly denominated in Hong Kong. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In view of nature of garment business, the Group has targeted on the market of cotton-based knitted garments for women, children and infants. The Group has concentration of credit risk as the Group's trade receivables as at 31 March 2006 of approximately HK$24,299,000 was derived from a few major customers. In order to minimise the credit risk, the directors continuously monitor the level of exposure to ensure that follow-up action and/or corrective actions are taken promptly to lower exposure or even to recover overdue debts.

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

Price risk

The Group's available-for-sale investments and investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

Interest rate risk

The Group has exposed to cash flow interest rate risk through the impact of the rate changes on floating interest rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider repaying bank borrowings when significant interest rate exposure is anticipated.

The Group has also exposed to cash flow interest rate risk through the impact of the rate changes on floating interest rate loans receivable. The management monitors interest rate exposure on loans receivable and will consider not to advance any loans with floating interest rate when significant interest rate exposure is anticipated.

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

7. 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:

	2006 **HK$'000**	2005 HK$'000
Continuing operations:		
Sales of goods	**458,666**	499,121
Rental income	**22,432**	24,345
Sales of properties	**8,349**	39,017
Building management fee income	**268**	173
Quota income	**—**	20,369
	489,715	583,025
Discontinued operation *(see note 39)*:		
Bleaching and dyeing services	**—**	6,976
	489,715	590,001

8. 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 bleaching and dyeing were discontinued in May 2004.

Segment information about these businesses is presented below:

Year 2006

(i) Income statement

	Continuing operations					
	Garment sourcing and export HK$'000	Property investment HK$'000	Investment in securities HK$'000	Loan financing HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER						
External	458,666	31,049	—	—	—	489,715
Inter-segment	—	3,311	—	—	(3,311)	—
Total	458,666	34,360	—	—	(3,311)	489,715
RESULT						
Segment result	(21,342)	212,484	95	4,219	(3,765)	191,691
Share of results of associates						(4,548)
Finance costs						(4,609)
Profit before taxation						182,534
Taxation						(9,683)
Profit for the year						172,851

Note: Inter-segment transactions are charged at prevailing market prices.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – *continued*

Business segments – *continued*

Year 2006 – *continued*

(ii) Balance sheet

	Continuing operations				
	Garment sourcing and export HK$'000	**Property investment HK$'000**	**Investment in securities HK$'000**	**Loan financing HK$'000**	**Consolidated HK$'000**
ASSETS					
Segment assets	**96,665**	**605,685**	**97,587**	**66,826**	**866,763**
Interests in associates					**62,887**
Unallocated corporate assets					**198,207**
Consolidated total assets					**1,127,857**
LIABILITIES					
Segment liabilities	**32,572**	**12,984**	**—**	**22**	**45,578**
Unallocated corporate liabilities					**51,351**
Consolidated total liabilities					**96,929**

(iii) Other information

	Continuing operations				
	Garment sourcing and export HK$'000	**Property investment HK$'000**	**Investment in securities HK$'000**	**Loan financing HK$'000**	**Consolidated HK$'000**
Capital additions	**1,036**	**41**	**—**	**—**	**1,077**
Depreciation of property, plant and equipment	**782**	**532**	**—**	**—**	**1,314**
Impairment loss on trade and other receivables	**33,315**	**198**	**—**	**—**	**33,513**
Impairment loss on inventories	**663**	**—**	**—**	**—**	**663**

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – *continued*

Business segments – *continued*

Year 2005

(i) Income statement

	Continuing operations				Discontinued operations		
	Garment sourcing and export	**Property investment**	**Investment in securities**	**Loan financing**	**Bleaching and dyeing**	**Eliminations**	**Consolidated**
	HK$'000	HK$'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	519,490	66,535	—	—	6,983	(3,007)	590,001
RESULT							
Segment result	23,667	169,889	159,498	1,926	(258)	(1,939)	352,783
Gain on disposal of subsidiaries					14,149		14,149
Share of results of associates							2,876
Finance costs							(3,566)
Profit before taxation							366,242
Taxation							(17,773)
Profit for the year							348,469

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$19,812,000.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – *continued*

Business segments – *continued*

Year 2005 – *continued*

(ii) Balance sheet

	Continuing operations				
	Garment sourcing and export HK$'000	Property investment HK$'000	Investment in securities HK$'000	Loan financing HK$'000	Consolidated 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
Consolidated total assets					1,328,097
LIABILITIES					
Segment liabilities	15,001	20,625	—	23	35,649
Unallocated corporate liabilities					238,760
Consolidated total liabilities					274,409

(iii) Other information

	Continuing operations				Discontinued operations	
	Garment sourcing and export HK$'000	Property investment HK$'000	Investment in securities HK$'000	Loan financing HK$'000	Bleaching and dyeing HK$'000	Consolidated HK$'000
Amortisation of permanent textile quota entitlements	884	—	—	—	—	884
Capital additions	1,572	—	—	—	17	1,589
Depreciation of property, plant and equipment	761	532	—	—	326	1,619
Impairment loss on trade and other receivables	4,215	—	—	—	—	4,215
Impairment loss on inventories	3,571	—	—	—	—	3,571

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – *continued*

Geographical segments

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

	Turnover	
	2006	2005
	HK$'000	HK$'000
Hong Kong	**31,049**	63,535
The People's Republic of China, excluding Hong Kong (the "PRC")	**—**	6,976
United States of America ("USA")	**422,552**	468,968
Canada	**609**	1,214
Mexico	**8,166**	12,309
Europe	**27,339**	36,999
	489,715	590,001

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	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**1,104,919**	1,313,793	**1,064**	1,563
PRC	**—**	—	**—**	17
USA	**22,637**	12,253	**13**	9
	1,127,556	1,326,046	**1,077**	1,589

9. IMPAIRMENT LOSS ON TRADE AND OTHER RECEIVABLES

During the year ended 31 March 2006, impairment loss on trade and other receivables of approximately HK$33,513,000 (2005: HK$4,215,000) was provided of which impairment loss amounting to approximately HK$33,315,000 (2005: nil) was provided in respect of the deposits to a supplier paid by the Group as a result of the voluntary liquidation of such supplier.

10. GAIN ON DISPOSAL OF SUBSIDIARIES

During the year ended 31 March 2005, the amount represented the gain on disposal of 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 Easyknit Enterprises Holdings Limited (formerly known as "Asia Alliance Holdings Limited") ("Easyknit Enterprises"), an associate of the Group (see note 39).

11. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
– bank borrowings wholly repayable within five years	**4,602**	3,559
– obligations under finance leases	**7**	7
	4,609	3,566

12. PROFIT BEFORE TAXATION

	2006 HK$'000	2005 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 13(a))*	**5,695**	7,383
Other staff costs, including retirement benefits costs	**19,557**	20,415
Share-based payments expense	**1,900**	—
Total staff costs	**27,152**	27,798
Amortisation of permanent textile quota entitlements *(note)*	**—**	884
Auditors' remuneration:		
– current year	**689**	647
– underprovision in prior years	**43**	78
Cost of inventories consumed	**387,814**	420,760
Cost of properties sold	**7,198**	35,062
Depreciation of property, plant and equipment		
– owned assets	**1,296**	1,599
– assets held under finance leases	**18**	20
	1,314	1,619
Impairment loss on inventories	**663**	3,571
Purchased temporary textile quota entitlements utilised	**—**	516
and after crediting:		
Dividend income from listed investments	**126**	—
Gain on disposal of investments held for trading	**83**	—
Gain on disposal of property, plant and equipment	**54**	143
Gain on disposal of permanent textile quota entitlements	**—**	2
Gain on disposal of other investments	**—**	919
Interest income	**8,387**	2,118

Note: The amount is included in distribution costs.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

Details of emoluments to the directors of the Company for the year ended 31 March 2006 are as follows:

	Executive director				Independent non-executive director			
	Tse Wing Chiu, Ricky	Lui Yuk Chu	Koon Wing Yee	Tsang Yiu Kai	Wong Sui Wah, Michael	Jong Koon Sang	Tsui Chun Kong	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fees	—	—	—	—	100	100	100	300
Other emoluments								
– salaries and other benefits	—	1,927	2,367	900	—	—	—	5,194
– retirement benefits schemes contributions	—	60	96	45	—	—	—	201
Total directors' emoluments	—	1,987	2,463	945	100	100	100	5,695

Details of emoluments to the directors of the Company for the year ended 31 March 2005 are as follows:

	Executive director			Independent non-executive director				
	Lui Yuk Chu	Koon Wing Yee	Tsang Yiu Kai	Wong Sui Wah, Michael	Jong Koon Sang	Tsui Chun Kong	Pui Hei, Hector	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fees	—	—	—	100	24	55	77	256
Other emoluments								
– salaries and other benefits	2,314	3,373	1,200	—	—	—	—	6,887
– retirement scheme contributions	60	120	60	—	—	—	—	240
Total directors' emoluments	2,374	3,493	1,260	100	24	55	77	7,383

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *continued*

(b) Information regarding employees' emoluments

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

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**1,764**	1,541

The emoluments of these employees fall within the following bands:

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**1**	2
HK$1,000,001 - HK$1,500,000	**1**	—
	2	2

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.

14. TAXATION

	2006	2005
	HK$'000	HK$'000
The charge comprises:		
Current tax – Hong Kong Profits Tax:		
Current year	**710**	8,677
Underprovision in prior years	**8**	5
	718	8,682
Deferred taxation *(note 37)*	**8,965**	9,091
Tax charge attributable to the Company and its subsidiaries	**9,683**	17,773

14. TAXATION – *continued*

Taxation for the year can be reconciled to the results per consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
Profit before taxation	**182,534**	366,242
Less: Share of (loss) profit of associates	**(4,548)**	2,876
	187,082	363,366
Tax charge of Hong Kong Profits Tax at 17.5% (2005: 17.5%)	**32,739**	63,589
Tax effect of expenses not deductible for tax purpose	**1,367**	1,599
Tax effect of income not taxable for tax purpose	**(6,320)**	(38,837)
Tax effect of tax losses not recognised	**4,526**	3,071
Tax effect of utilisation of tax losses previously not recognised	**(19,727)**	(6,671)
Tax effect of other deductible temporary differences not recognised	**(2,958)**	(5,031)
Underprovision in prior years	**8**	5
Others	**48**	48
Taxation for the year	**9,683**	17,773

15. DIVIDEND

	2006 HK$'000	2005 HK$'000
Final dividend paid for 2005 of 0.5 HK cent (2004: 0.5 HK cent) per share	**6,618**	6,618
Proposed final dividend of 0.5 HK cent (2006: nil) per share in 2005	**—**	6,618

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 March 2006.

16. EARNINGS PER SHARE

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

	2006	2005
	HK$'000	HK$'000
Earnings for the purposes of calculating basic and diluted earnings per share	**172,851**	348,469

	2006	2005
Number of shares		
Number/weighted average number of shares for the purposes of calculating basic earnings per share	**1,323,673,386**	1,218,081,240
Effect of dilutive potential shares relating to outstanding share options		5,256,920
Weighted average number of shares for the purpose of calculating diluted earnings per share		1,223,338,160

No diluted earnings per share in 2006 is presented as the exercise price of the Company's outstanding share options was higher than the average market price for the period from the date of grant to 31 March 2006.

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

	2006		2005	
	Basic	**Diluted**	Basic	Diluted
	HK$	**HK$**	HK$	HK$
Figures before adjustments	**0.048**	**N/A**	0.293	0.291
Adjustments arising from the adoption of HKFRSs *(see notes 2 and 3)*	**0.083**	**N/A**	(0.007)	(0.006)
Restated	**0.131**	**N/A**	0.286	0.285

17. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

(a) During the year, the Group had the following 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, a former director of the Company, and his spouse, Ms. Lui Yuk Chu, a director of the Company:

	2006	2005
	HK$'000	HK$'000
Purchases of garments	**135,420**	223,985
Rental income	**472**	74
Sales of garments	**—**	503
Bleaching and dyeing charges received	**—**	978

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

	2006	2005
	HK$'000	HK$'000
Trade receivables	**16**	11,923
Deposits paid	**—**	83,553
Trade and other receivables	**16**	95,476

The Group, its substantial 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) During the year, the Group provided administrative service to Easyknit Enterprises, the associate of the Group and a company in which Mr. Koon Wing Yee and Mr. Tsang Yiu Kai, both of whom were former directors of the Company, and Ms. Lui Yuk Chu, a director of the Company, have beneficial interests, and received service income of HK$240,000 (2005: HK$241,000) from that company.

(c) During the year, impairment loss on trade and other receivables of approximately HK$33,315,000 (2005: nil) was provided by the Group in respect of the deposits to a company controlled by Mr. Louie Tsz Chung paid by the Group as a result of the voluntary liquidation of such company. Mr. Louie Tsz Chung is the nephew of Ms. Lui Yuk Chu, a director of the Company.

In addition, the Group also terminated the agreement (as supplemented by a supplemental letter dated 15 June 2004) entered into with Mr. Louie Tsz Chung as a result of the voluntary liquidation of the company controlled by Mr. Louie Tsz Chung.

(d) In May 2004, the Group disposed of the entire issued shares of Po Cheong to a wholly-owned subsidiary of Easyknit Enterprises 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 had been subsequently adjusted downwards to HK$38,880,000 on 16 June 2005. Details of the transaction are set out in note 39.

17. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS – *continued*

(e) 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 former 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 38.

(f) 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 were former directors of the Company, had beneficial interests and received service income of HK$104,000 from that company for the year ended 31 March 2005.

(g) Compensation of key management personnel

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

	2006	2005
	HK$'000	HK$'000
Short-term employee benefits	**8,325**	8,119

The remuneration of directors and key executives are determined by the remuneration committee and the executive directors, respectively, having regard to the performance of individuals and market trends.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
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)
At 31 March 2005	41,384	—	14,616	2,293	58,293
Additions	—	—	281	796	1,077
Disposals	—	—	(2,032)	(610)	(2,642)
At 31 March 2006	41,384	—	12,865	2,479	56,728
Comprising:					
At 31 March 2005					
At cost	12,384	—	14,616	2,293	29,293
At valuation – 1995	29,000	—	—	—	29,000
	41,384	—	14,616	2,293	58,293
At 31 March 2006					
At cost	12,384	—	12,865	2,479	27,728
At valuation – 1995	29,000	—	—	—	29,000
	41,384	—	12,865	2,479	56,728
DEPRECIATION					
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)
At 31 March 2005	18,975	—	13,721	1,162	33,858
Provided for the year	530	—	422	362	1,314
Eliminated on disposals	—	—	(2,025)	(609)	(2,634)
At 31 March 2006	19,505	—	12,118	915	32,538
CARRYING VALUES					
At 31 March 2006	21,879	—	747	1,564	24,190
At 31 March 2005	22,409	—	895	1,131	24,435

Note: Owner-occupied leasehold land situated in Hong Kong is included in property, plant and equipment as the allocation between the land and buildings elements cannot be made reliably.

18. PROPERTY, PLANT AND EQUIPMENT – *continued*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold properties	Over the duration of the leases or fifty years, whichever is the shorter
Plant and machinery	9% to 18%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

The carrying value of leasehold properties shown above comprises:

	2006	2005
	HK$'000	HK$'000
Properties held on medium-term lease in Hong Kong	**21,879**	22,409

The valuation of certain leasehold properties 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 these leasehold properties been carried at cost less accumulated depreciation, their carrying value would have been stated at HK$26,637,000 (2005: HK$27,320,000).

At 31 March 2005, the carrying value of plant and machinery of the Group included an amount of HK$18,000 (2006:nil) in respect of assets held under finance leases.

19. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 April 2004	479,280
Surplus arising on revaluation of investment properties	140,690
At 31 March 2005	619,970
Increase in fair value recognised in the income statement	189,730
Disposed of during the year	(220,000)
At 31 March 2006	589,700

The fair value of the Group's investment properties at 31 March 2006 has been arrived at on the basis of a valuation carried out on that day by Messrs. Knight Frank, independent qualified professional property valuers not connected with the Group. Messrs. Knight Frank are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications. The valuation, which conforms to The Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transactions prices for similar properties.

All the Group's leasehold interests in land held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

20. INTANGIBLE ASSET

The intangible asset represents club debenture with indefinite useful life and is carried at cost.

The club debenture is considered by the management of the Group as having an indefinite useful life because there is no contractual life for the club debenture. There is no indication that the club debenture may be impaired as a result of the impairment test carried out by the management of the Group with reference to the second-hand market price of the club debenture at the balance sheet date.

21. INTERESTS IN ASSOCIATES

	2006	2005
	HK$'000	HK$'000
Listed securities in Hong Kong, at cost	**75,676**	24,707
Share of post-acquisition losses	**(13,526)**	(1,720)
Share of translation reserve	**737**	—
Unrealised gain on disposal of Po Cheong to Easyknit Enterprises *(note)*	**—**	(7,258)
	62,887	15,729
Market value of listed securities	**239,845**	13,595

Note: The amount represented the unrealised gain on disposal of entire issued shares of Po Cheong to a wholly-owned subsidiary of Easyknit Enterprises during the year ended 31 March 2005 (see note 39).

During the year ended 31 March 2006, the whole amount of goodwill arising from acquisition of Po Cheong by Easyknit Enterprises was fully impaired, as a result, the unrealised gain on disposal of Po Cheong to Easyknit Enterprises amounting to HK$7,258,000 was recognised as realised gain in the consolidated income statement of the Company for the year ended 31 March 2006 and the amount was included in the share of results of associates for the year.

21. INTERESTS IN ASSOCIATES – *continued*

The summarised financial information in respect of the Group's associates is set out below:

	2006 HK$'000	2005 HK$'000
Total assets	**185,541**	119,667
Total liabilities	**(10,513)**	(55,646)
Net assets	**175,028**	64,021
Group's share of net assets of associates	**62,887**	22,987
Turnover	**58,039**	53,662
(Loss) profit for the year	**(32,857)**	6,104
Group's share of results of associates for the year	**(11,806)**	2,199
Realised gain on disposal of Po Cheong to Easyknit Enterprises	**7,258**	677
Total share of results of associates for the year	**(4,548)**	2,876

21. INTERESTS IN ASSOCIATES – *continued*

Particulars of the Group's principal associates as at 31 March 2006 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/stated capital held by the Group	Nature of business
Easyknit Enterprises Holdings Limited	Incorporated	Bermuda	Hong Kong	Ordinary	35.93%	Investment holding
Easyknit (Mauritius) Limited	Establishment	Republic of Mauritius	Hong Kong	N/A	35.93%*	Investment holding
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%*	Bleaching and dyeing
永義紡織（河源）有限公司 ("He Yuan") ***	Establishment	PRC	PRC	N/A	35.93%*	Knitting
永義製衣（湖州）有限公司 ("Huzhou Garment")****	Establishment	PRC	PRC	N/A	35.93%*	Garment manufacturing
永義紡織（湖州）有限公司 ("Huzhou Knitting")*****	Establishment	PRC	PRC	N/A	35.93%*	Knitting
永義漂染（湖州）有限公司 ("Huzhou Bleaching and Dyeing")******	Establishment	PRC	PRC	N/A	35.93%*	Bleaching and dyeing

* These companies are wholly-owned subsidiaries of Easyknit Enterprises.

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

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

**** Huzhou Garment is a wholly foreign owned enterprise established in the PRC, to be operated for 50 years up to 14 December 2054.

***** Huzhou Knitting is a wholly foreign owned enterprise established in the PRC, to be operated for 50 years up to 5 January 2055.

****** Huzhou Bleaching and Dyeing is a wholly foreign owned enterprise established in the PRC, to be operated for 50 years up to 4 January 2055.

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.

22. AVAILABLE-FOR-SALE INVESTMENTS

	2006 HK$'000	2005 HK$'000
Equity securities listed in Hong Kong at market value	**93,987**	—

At 31 March 2006, all available-for-sale investments are stated at fair value and the fair value of the investments has been determined by reference to bid prices quoted in active markets.

23. PROPERTIES HELD FOR SALE

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

24. INVESTMENTS HELD FOR TRADING

	2006 HK$	2005 HK$
Equity securities listed in Hong Kong at market value	**3,600**	—

At 31 March 2006, the investments held for trading are stated at fair value and the fair value of the investments has been determined by reference to bid prices quoted in active markets.

25. OTHER INVESTMENTS

	2006 HK$'000	2005 HK$'000
Equity securities listed in Hong Kong at market value	**—**	244,030

26. INVENTORIES

All inventories are finished goods at the balance sheet date.

27. TRADE AND OTHER RECEIVABLES

	2006 HK$'000	2005 HK$'000
Trade receivables	**24,299**	34,682
Deposits to suppliers	**42,585**	153,748
Other receivables	**5,342**	7,783
	72,226	196,213

27. TRADE AND OTHER RECEIVABLES – *continued*

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:

	2006	2005
	HK$'000	HK$'000
0 - 60 days	**22,818**	28,665
61 - 90 days	**1,003**	2,742
Over 90 days	**478**	3,275
	24,299	34,682

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

28. LOANS RECEIVABLE

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

	2006	2005
	HK$'000	HK$'000
Amount secured by property interests and bearing interest at 6% (2005: 2%) per annum	**7,000**	4,800
Unsecured amount		
– guaranteed by outside parties and bearing interest at 3% to Hong Kong Interbank Offer Rate ("HIBOR") plus 2.125% (2005: 2% to 6%) per annum	**59,003**	54,725
– bearing interest at 10% (2005: 3% to 10%) per annum	**50**	12,350
	66,053	71,875

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

29. BILLS RECEIVABLE

Bills receivable included discounted bills with recourse of HK$3,117,000 at 31 March 2006. The maturity date of the discounted bills with recourse is within three months from inception date of the discounted bills.

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

30. BANK BALANCES AND CASH

The amounts comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, at prevailing market interest rates ranging from 1.50% to 4.19% (2005: 0.01% to 0.06%) per annum. The fair values of these assets approximate their corresponding carrying amounts.

31. TRADE AND OTHER PAYABLES

Included in trade and other payables is trade payables of approximately HK$26,163,000 (2005: HK$9,858,000). The aged analysis of trade payables at the balance sheet date is as follows:

	2006	2005
	HK$	HK$
0 - 60 days	**26,009**	9,507
61 - 90 days	**2**	14
Over 90 days	**152**	337
	26,163	9,858

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

32. BILLS PAYABLE

At the balance sheet date, the bills payable is aged within 30 days. The fair value of the Group's bills payable at 31 March 2006 approximates the corresponding carrying amount.

33. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		**Present value of minimum lease payments**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**—**	25	**—**	18
Less: Future finance charges	**—**	(7)	**—**	—
Present value of lease obligations	**—**	18	**—**	18
Less: Amount due within one year shown under current liabilities			**—**	(18)
Amount due after one year			**—**	—

34. BANK BORROWINGS

	2006	2005
	HK$'000	HK$'000
Discounted bills with recourse	**3,117**	—
Import loans	**702**	12,514
Bank loans	**—**	174,835
	3,819	187,349
Less: Amount due within one year shown under current liabilities	**(3,819)**	(120,986)
Amount due after one year	**—**	66,363

At the balance sheet date, the Group's bank borrowings are repayable as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**3,819**	120,986
In more than one year but not more than two years	**—**	44,863
In more than two years but not more than three years	**—**	15,500
In more than three years but not more than four years	**—**	6,000
	3,819	187,349

All of the Group's bank borrowings are at variable-rate and the range of effective interest rates of the Group's bank borrowings are as follows:

	2006	2005
Effective interest rate		
Variable-rate borrowings	0.8% per annum over HIBOR to 1% per annum over the bank's Hong Kong dollars best lending rate	0.8% per annum over HIBOR to 1% per annum over the bank's Hong Kong dollars best lending rate

The above bank borrowings are secured by certain leasehold properties and investment properties of the Group (see note 40).

The maturity date of the discounted bills with recourse is within three months from inception date of the discounted bills. The fair value of the Group's bank borrowings approximates the corresponding carrying amount calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

34. BANK BORROWINGS – *continued*

The Group's bank borrowings that are denominated in currency other than the functional currency, are set out below:

	2006 Amount	2005 Amount
U.S. dollars	**US$34,000**	US$109,000

35. SHARE CAPITAL

	Notes	**Nominal value per share**	**Number of shares**	**Amount**
		HK$		HK$'000
Authorised:				
At 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 and 31 March 2006		0.10	10,000,000,000	1,000,000
Issued and fully paid:				
At 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 and 31 March 2006		0.10	1,323,673,386	132,367

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.

36. 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.

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.

36. SHARE OPTION SCHEME – *continued*

A summary of the movements of the Company's share options during the year ended 31 March 2006 is as follows:

Grantee	Date of grant	Exercise period	Exercise price HK$ *(note 2)*	Number of share options: At 1 April 2005	Granted during the year	At 31 March 2006	Share price at grant date of options HK$ *(note 3)*
Employees	2 March 2006	2 March 2006 to 1 September 2006 *(note 1)*	0.1418	—	132,360,000	132,360,000	0.1340

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): At 1 April 2004	Granted during the year	Adjustment*	Lapsed during the year	At 31 March 2005	Share price at grant date of options HK$ *(note 3)*
Employees	20 February 2004	20 February 2004 to 19 August 2004 *(note 1)*	0.1440	88,000,000	—	(88,000,000)	—	—	0.1430
			0.1380*	—	—	132,000,000	(132,000,000)	—	
	18 November 2004	18 November 2004 to 17 March 2005 *(note 1)*	0.1310	—	132,360,000	—	(132,360,000)	—	0.1250

No share options were exercised or cancelled during both years.

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

* 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.

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.

36. SHARE OPTION SCHEME – *continued*

The fair value of share options granted during the year ended 31 March 2006 is calculated of using the Black-Scholes option pricing model. The assumptions used are as follows:

Date of grant	2 March 2006
Weighted average share price	HK$0.1278
Exercise price	HK$0.1418
Expected life of options	0.5 years
Expected volatility	46.42%
Expected dividend yield	3.73%
Risk-free interest rate	5.0%
Estimated fair value of option at grant date	HK$0.0144
Closing share price at grant date	HK$0.1340

Notes:

(i) The volatility measured at the standard deviation of expected share price returns is based on a statistical analysis of weekly share prices over thirty weeks immediately preceding the grant date.

(ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in the Company set out above.

There is no financial impact on the results of the Group in prior years upon application of HKFRS 2 as the share options granted on 20 February 2004 and 18 November 2004 were granted after 7 November 2002 and had been vested before 1 April 2005 in accordance with the relevant transitional provisions of HKFRS 2.

37. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	**Investment properties** HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 April 2004				
– as previously stated	100	4,366	(3,956)	510
– effect of changes in accounting policies *(see notes 2 and 3)*	—	9,287	(5,375)	3,912
– as restated	100	13,653	(9,331)	4,422
Charge to income statement	158	8,550	383	9,091
At 31 March 2005	258	22,203	(8,948)	13,513
Charge (credit) to income statement	132	21,680	(12,847)	8,965
At 31 March 2006	390	43,883	(21,795)	22,478

37. DEFERRED TAXATION – *continued*

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:

	2006	2005
	HK$'000	HK$'000
Tax losses	**123,781**	210,642
Accelerated tax depreciation	**—**	54
Miscellaneous allowance	**—**	16,850
	123,781	227,546

At 31 March 2006, the Group has unused tax losses of HK$248,324,000 (2005: HK$261,770,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$124,543,000 (2005: HK$51,128,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$123,781,000 (2005: HK$210,642,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely except the losses of HK$36,131,000 (2005: HK$28,481,000) which will expire as follows:

	2006	2005
	HK$'000	HK$'000
Year of expiry		
2022	**1,821**	1,821
2023	**2,163**	2,163
2024	**11,225**	11,225
2025	**13,272**	13,272
2026	**7,650**	—
	36,131	28,481

Other deductible temporary differences of HK$16,904,000 (2006: nil) as at 31 March 2005 had not been recognised as it was not probable that taxable profit would be available against which the deductible temporary differences can be utilised.

38. 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, former 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.

	HK$'000
Net assets acquired	
Bank balances and cash	22
Other payables	(7)
Total consideration	15
Satisfied by:	
Cash	15
Net cash inflow of cash and cash equivalents in respect of the acquisition of a subsidiary:	
Cash consideration paid	(15)
Bank balances and cash acquired	22
	7

The subsidiary acquired during the year ended 31 March 2005 did not have any significant impact on the results and cash flows of the Group.

39. DISPOSAL OF SUBSIDIARIES

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 Easyknit Enterprises, 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 consideration shall be satisfied in cash, of which HK$50,000,000 was received by the Group on 13 May 2004 and the remaining balance of HK$15,000,000 shall be received after finalisation of the adjustment (as referred to in the sale and purchase agreement dated 5 March 2004). The adjustment was finalised on 16 June 2005 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. The amount was fully repaid during the year ended 31 March 2006.

39. DISPOSAL OF SUBSIDIARIES – *continued*

The disposal of subsidiaries constituted a discontinued operation of the Group during the year ended 31 March 2005 and the disposal was completed on 17 May 2004.

	HK$'000
The net assets of the subsidiaries at the date of disposal were as follows:	
Net assets disposed of	
Property, plant and equipment	14,529
Inventories	3,010
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)
	16,571
Gain on disposal of subsidiaries	
– realised	14,149
– unrealised	7,935
Total consideration	38,655
Satisfied by:	
Cash consideration	
– Cash received	50,000
– Consideration repayable	(11,120)
Expenses incurred in connection with the disposal of subsidiaries	(225)
	38,655
Net cash inflow of cash and cash equivalents in respect of the disposal of subsidiaries:	
Cash received	50,000
Expenses incurred in connection with the disposal of subsidiaries	(225)
Bank balances and cash disposed of	(423)
	49,352

39. DISPOSAL OF SUBSIDIARIES – *continued*

The results of the discontinued operations were as follows:

	HK$'000
Turnover	6,983
Cost of sales	(6,465)
Gross profit	518
Other income	15
Distribution costs	(113)
Administrative expenses	(678)
Finance costs	(17)
Loss for the year	(275)

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

Net cash used in operating activities	(1,837)
Net cash used in investing activities	(12)
Net cash from financing activities	725
Net cash outflow	(1,124)

40. PLEDGE OF ASSETS

At 31 March 2006, certain leasehold properties and investment properties of the Group with carrying amounts of HK$9,116,000 (2005: HK$9,337,000) and HK$588,000,000 (2005: HK$619,010,000), respectively, have been pledged to banks to secure the bank borrowings granted to the Group.

41. CONTINGENT LIABILITIES

	2006	2005
	HK$'000	HK$'000
Bills discounted with recourse	—	3,441

42. CAPITAL COMMITMENTS

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

43. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2006 HK$'000	2005 HK$'000
Minimum lease payments recognised in the consolidated income statement during the year	**2,959**	3,130

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

	2006 HK$'000	2005 HK$'000
Within one year	**2,487**	2,727
In the second to fifth year inclusive	**1,400**	1,686
	3,887	4,413

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 three years.

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

The Group as lessor

	2006 HK$'000	2005 HK$'000
Property rental income earned during the year	**22,432**	24,345
Less: Outgoings	**(679)**	(725)
Net rental income	**21,753**	23,620

43. OPERATING LEASE ARRANGEMENTS – *continued*

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

	2006	2005
	HK$'000	HK$'000
Within one year	**14,646**	24,224
In the second to fifth year inclusive	**8,388**	11,610
	23,034	35,834

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

44. 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 which have been dealt with in the consolidated income statement for the year ended 31 March 2006 amounted to approximately HK$795,000 (2005: HK$811,000).

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

45. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 March 2006:

a) As announced by the Company on 8 March 2006, the Company proposed a rights issue of 661,836,693 rights shares of HK$0.10 each at a subscription price of HK$0.12 per rights share in the proportion of one rights share for every two shares of the Company held. Details of this are set out, inter alia, in the prospectus of the Company dated 3 April 2006.

b) As announced by the Company on 22 May 2006, the Company proposed a voluntary delisting (the "Delisting") of the Company's shares in The Singapore Exchange Securities Trading Limited. On 26 June 2006, The Singapore Exchange Securities Trading Limited has granted in-principle approval for the Delisting, subject to the approval of the shareholders of the Company at a special general meeting to be convened on 31 July 2006. Details of the Delisting are set out in the circular of the Company dated 7 July 2006.

c) As announced by the Company on 8 June 2006, the Company proposed to acquire entire issued share capital of Happy Light Investments Limited ("Happy Light"), a company incorporated in the British Virgin Islands, for a consideration of approximately HK$53,680,000. Through the acquisition of Happy Light, the Group acquired the right to acquire 18 out of 20 properties situated in Victory Avenue, Kowloon, Hong Kong (the "Building"). The Group intends to acquire the remaining 2 units and estimates that it will incur approximately HK$170,000,000 in total for the whole Building for re-development. Details of this are set out, inter alia, in the circular of the Company dated 3 July 2006.

The net assets of Happy Light acquired in the transaction are as follows:

	Carrying amount and fair value
	HK$'000
Net assets of Happy Light acquired:	
Properties held under re-development	42,090
Trade and other receivables	162
Deposits paid for acquisition of properties	9,570
Deposits paid for consultancy fee	2,030
Trade and other payables	(172)
Amount due to sole shareholder and director	(11,606)
	42,074
Assignment of amount due to sole shareholder and director	11,606
Total consideration satisfied by cash and cash outflow arising on acquisition of Happy Light	53,680

RESULTS

	Year ended 31 March				
	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000 (Restated)	**2006** **HK$'000**
Turnover	694,262	687,652	706,044	590,001	**489,715**
(Loss) profit before taxation	(5,318)	(7,094)	134,875	366,242	**182,534**
Taxation	(5,254)	(21,044)	(2,459)	(17,773)	**(9,683)**
(Loss) profit for the year	(10,572)	(28,138)	132,416	348,469	**172,851**
Attributable to:					
Equity holders of the Company	(9,399)	(24,871)	140,830	348,469	**172,851**
Minority interests	(1,173)	(3,267)	(8,414)	—	**—**
(Loss) profit for the year	(10,572)	(28,138)	132,416	348,469	**172,851**

ASSETS AND LIABILITIES

	At 31 March				
	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000 (Restated)	**2006** **HK$'000**
Total assets	845,844	959,763	1,041,132	1,328,097	**1,127,857**
Total liabilities	(374,402)	(434,414)	(373,917)	(274,409)	**(96,929)**
Equity attributable to equity holders of the Company	471,442	525,349	667,215	1,053,688	**1,030,928**
Minority interests	705	1,036	—	—	**—**
Total equity	472,147	526,385	667,215	1,053,688	**1,030,928**

As set out in notes 2 and 3 to the consolidated financial statements, the Group adopted a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants during the year ended 31 March 2006. Comparative amounts for the year 2005 have been restated. Comparative amounts for other years are not restated.

As at 31 March 2006

A. INVESTMENT PROPERTIES

	Location	Purpose	Approximate gross floor/ saleable area (sq. ft.)	Lease term
1.	Easy Tower Nos. 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.	Ground Floor, No. 50 Yun Ping Road, Causeway Bay, Hong Kong	Commercial	900	Long
6.	Ground Floor and Cockloft No. 31 Granville Road, Tsim Sha Tsui, Kowloon	Commercial	2,002	Medium
7.	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	4,243	100%	Medium