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## IMPORTANT

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If you are in any doubt about this prospectus or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Easyknit International Holdings Limited (the "Company"), you should at once hand this prospectus and the accompanying provisional allotment letter and the form of application for excess Rights Shares, to the purchaser or bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

Dealings in the shares of the Company may be settled through the Central Clearing and Settlement System operated by Hong Kong Securities Clearing Company Limited ("HKSCC") and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

A copy of this prospectus, together with copies of the provisional allotment letter and the form of application for excess Rights Shares and the written consent of Deloitte Touche Tohmatsu (referred to herein) has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus will, as soon as reasonably practicable, be filed with the Registrar of Companies in Bermuda in accordance with the Companies Act 1981 of Bermuda (as amended). The Registrar of Companies in Hong Kong, the Securities and Futures Commission of Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of any of the documents referred to above.

The Stock Exchange of Hong Kong Limited, Singapore Exchange Securities Trading Limited ("SGX-ST") and HKSCC take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. Admission to the Official List of the SGX-ST and the listing and quotation for the Rights Shares, on the SGX-ST are in no way reflective of the merits of the Company, its subsidiaries or the Rights Issue.

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## EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永義國際集團有限公司 \*

(Incorporated in Bermuda with limited liability)

(Stock code: 1218)

### RIGHTS ISSUE OF 661,836,693 RIGHTS SHARES OF HK\$0.10 EACH AT HK\$0.12 PER RIGHTS SHARE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO SHARES HELD PAYABLE IN FULL UPON ACCEPTANCE

Financial Adviser

**ALTUS CAPITAL LIMITED**

Underwriter of the Rights Issue



**Get Nice Investment Limited**

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It should be noted that the Underwriting Agreement contains provisions that the Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to 4:00 p.m. on Monday, 24 April 2006, being the second Business Day following the Acceptance Date, if: 1. there occurs (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the USA) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or 2. the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or 3. the Underwriter receives notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or 4. the Prospectus Documents contain information which would be untrue or inaccurate in any material respect and the Company has failed to send out promptly any announcements or circulars (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company. Details of terms for the termination of the Underwriting Agreement are set out in the section headed "Termination of the Underwriting Agreement" on pages 11 to 12 of this prospectus. If the Underwriting Agreement is terminated, the Rights Issue will not proceed.

Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 6 April 2006 to Thursday, 13 April 2006 (both dates inclusive) on the Stock Exchange and from Monday, 3 April 2006 to Tuesday, 4 April 2006 (both dates inclusive) on the SGX-ST whilst the conditions to which the Rights Issue is subject remain unfulfilled. Any Shareholders or other persons dealing in the Shares from now up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be Monday, 24 April 2006), or in the Rights Shares in their nil-paid form during the period from Thursday, 6 April 2006 to Thursday, 13 April 2006 (Monday, 3 April 2006 to Tuesday, 4 April 2006, in the case of Shares traded on the SGX-ST), being the respective first and the last day of dealings in the nil-paid Rights Shares (both dates inclusive), will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in the nil-paid form during such periods who are in any doubt about their position are recommended to consult their professional advisers.

The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Thursday, 20 April 2006, in the case of Shares traded on the Stock Exchange, and 4:45 p.m. (for acceptance through CDP) or 9:30 p.m. (for acceptance through automated teller machines of participating banks) on Monday, 10 April 2006, in the case of Shares traded on the SGX-ST. The procedures for acceptance or transfer of the Rights Shares are set out on pages 14 to 15 of this prospectus.

\* For identification only

3 April 2006

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## SUMMARY OF THE RIGHTS ISSUE

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*The following information is derived from, and should be read in conjunction with, the full text of this Prospectus.*

Amount to be raised . . . . . approximately HK\$77.6 million, net of expenses

Basis of the Rights Issue . . . . . one Rights Share for every two Shares held on the Record Date

Number of Rights Shares . . . . . 661,836,693 Rights Shares

Rights Price . . . . . HK\$0.12 per Rights Share, payable in full upon acceptance

Latest time and date for acceptance of and payment for the Rights Shares

— in the case of Shares traded on the Stock Exchange . . . . . 4:00 p.m. on Thursday, 20 April 2006

— in the case of Shares traded on the SGX-ST . . . . . 4:45 p.m. (for acceptance through CDP) or 9:30 p.m. (for acceptance through automated teller machines of participating banks) on Monday, 10 April 2006

Right of excess application . . . . . Qualifying Shareholders have the right to apply for Rights Shares in excess of their provisional allotments

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## EXPECTED TIMETABLE IN HONG KONG

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2006

|   |  |
|---|--|
| First day of dealings in nil-paid Rights Shares .....   | Thursday, 6 April                      |
| Latest time and date for splitting of nil-paid Rights Shares .....                                    | 4:00 p.m. on Monday, 10 April          |
| Last day of dealings in nil-paid Rights Shares .....  | Thursday, 13 April                     |
| Latest time and date for payment for and<br>acceptance of Rights Shares .....                         | 4:00 p.m. on Thursday, 20 April        |
| Latest time and date for the Rights Issue and<br>Underwriting Agreement to become unconditional ..... | after 4:00 p.m.<br>on Monday, 24 April |
| Announcement of results of acceptance of and<br>excess applications in the Rights Issue .....         | Tuesday, 25 April                      |
| Despatch of refund cheques for wholly and partially unsuccessful<br>excess applications .....         | Tuesday, 25 April                      |
| Despatch of certificates for fully-paid Rights Shares .....   | Tuesday, 25 April                      |
| First day of dealings in fully-paid Rights Shares .....   | Thursday, 27 April                     |

*Please refer to appendix V for information on the expected timetable and dealings in Shares and settlement in Singapore.*

*Investors should be aware that Singapore nil-paid Rights Shares cannot be traded in Hong Kong and Hong Kong nil-paid Rights Shares cannot be traded in Singapore.*

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## FORCE MAJEURE

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### TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to 4:00 p.m. on the Settlement Date if:

1. there occurs:
  - (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
  - (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the USA) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
  - (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or

2. the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
3. the Underwriter receives notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or

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## FORCE MAJEURE

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4. the Prospectus Documents contain information which would be untrue or inaccurate in any material respect and the Company has failed to send out promptly any announcements or circulars (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter such fees or expenses as may then be agreed by the Underwriter and the Company. If the Underwriter exercises such right, the Rights Issue will not proceed.

Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 6 April 2006 to Thursday, 13 April 2006 (both dates inclusive) on the Stock Exchange and from Monday, 3 April 2006 to Tuesday, 4 April 2006 (both dates inclusive) on the SGX-ST whilst the conditions to which the Rights Issue is subject remain unfulfilled. Any Shareholders or other persons dealing in the Shares from now up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be Monday, 24 April 2006), or in the Rights Shares in their nil-paid form during the period from Thursday, 6 April 2006 to Thursday, 13 April 2006 (Monday, 3 April 2006 to Tuesday, 4 April 2006, in the case of Shares traded on the SGX-ST), being the respective first and the last day of dealings in the nil-paid Rights Shares (both dates inclusive), will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in the nil-paid form during such periods who are in any doubt about their position are recommended to consult their professional advisers.

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## DEFINITIONS

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*In this Prospectus, unless the context otherwise requires, the following expressions have the following meanings:*

|                       |   |
|-----------------------|---|
| “Acceptance Date”     | 4:00 p.m. on Thursday, 20 April 2006, in the case of Shares traded on the Stock Exchange, and 4:45 p.m. (for acceptance through CDP) or 9:30 p.m. (for acceptance through automated teller machines of participating banks) on Monday, 10 April 2006, in the case of Shares traded on the SGX-ST (or such other time and date as the Underwriter may agree in writing with the Company as the last time and date for payment for and acceptance of Rights Shares) |
| “ARE(s)”              | application form(s) for Rights Shares and excess Rights Shares issued to Qualifying Shareholders with Shares entered against their name in the depository register maintained by CDP as at the Record Date  |
| “ARS(s)”              | application form(s) for Rights Shares issued to purchaser(s) of Rights Shares in nil-paid form which are traded on the SGX-ST   |
| “Asia Alliance”       | Asia Alliance Holdings Limited, an associated company of the Company, the shares of which are listed on the Stock Exchange  |
| “associate(s)”        | the meaning ascribed thereto in the Listing Rules   |
| “BMA”                 | the Bermuda Monetary Authority  |
| “Board”               | the board of Directors  |
| “Business Day”        | a day on which banks generally are open for business for more than five hours in Hong Kong  |
| “CCASS”               | the Central Clearing and Settlement System established and operated by HKSCC  |
| “CDP”                 | The Central Depository (Pte) Limited in Singapore   |
| “Companies Ordinance” | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)   |
| “Company”             | Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the securities of which are listed on the Stock Exchange and the SGX-ST  |

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## DEFINITIONS

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|                                 |   |
|---------------------------------|---|
| “Director(s)”                   | director(s) of the Company  |
| “EAF(s)”                        | the excess application form(s) issued in connection with the Rights Issue   |
| “Group”                         | the Company and its subsidiaries  |
| “HKSCC”                         | the Hong Kong Securities Clearing Company Limited   |
| “Hong Kong”                     | the Hong Kong Special Administrative Region of the PRC  |
| “Last Trading Day”              | 6 March 2006, being the last trading day before the suspension of trading in the Shares, pending the announcement of the Rights Issue   |
| “Latest Practicable Date”       | 27 March 2006, being the latest practicable date prior to the printing of this Prospectus for ascertaining certain information contained herein   |
| “Listing Rules”                 | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Macau”                         | the Macau Special Administrative Region of the PRC  |
| “Magical Profits”               | Magical Profits Limited, a company incorporated in the British Virgin Islands with limited liability  |
| “Market Day”                    | a day on which the SGX-ST is open for trading in securities   |
| “Non-Qualifying Shareholder(s)” | Overseas Shareholder(s) in respect of whom the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Issue to such Overseas Shareholder(s) on account either of restrictions under the laws of the relevant place or the requirements of a relevant regulatory body or stock exchange in that place |
| “Overseas Shareholder(s)”       | Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong, Singapore or Bermuda  |
| “PAL(s)”                        | the provisional allotment letter(s) issued in connection with the Rights Issue  |
| “PRC”                           | the People’s Republic of China  |
| “Prospectus”                    | this prospectus   |



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## DEFINITIONS

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|                             |   |
|-----------------------------|---|
| “Prospectus Documents”      | the Prospectus, PAL and EAF (or ARE and ARS in the case of Shares traded on the SGX-ST)   |
| “Qualifying Shareholder(s)” | Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date  |
| “Record Date”               | Friday, 31 March 2006, in the case of Shares traded on the Stock Exchange and 5:00 p.m. on Monday, 27 March 2006 in the case of Shares traded on the SGX-ST, being the date by reference to which entitlements to the Rights Issue are determined |
| “Registrar”                 | the Company’s branch share registrar in Hong Kong, Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong  |
| “Rights Issue”              | the issue of the Rights Shares by way of rights to the Qualifying Shareholders on the basis of one Rights Share for every two Shares held on the Record Date at a price of HK\$0.12 per Rights Share  |
| “Rights Price”              | HK\$0.12 per Rights Share payable in full on acceptance   |
| “Rights Shares”             | 661,836,693 Rights Shares issued and provisionally allotted under the Rights Issue  |
| “Settlement Date”           | the date being the second Business Day following the Acceptance Date  |
| “SFO”                       | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |
| “SGX-ST”                    | Singapore Exchange Securities Trading Limited   |
| “Share(s)”                  | ordinary share(s) of HK\$0.10 each in the share capital of the Company  |
| “Shareholder(s)”            | holder(s) of Share(s)   |
| “Share Option(s)”           | the outstanding share option(s) granted by the Company pursuant to the share option scheme of the Company adopted on 18 February 2002   |
| “Stock Exchange”            | The Stock Exchange of Hong Kong Limited   |

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## DEFINITIONS

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|                          |  |
|--------------------------|--|
| “Underwriter”            | Get Nice Investment Limited, a corporation deemed licensed to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company |
| “Underwriting Agreement” | the underwriting agreement dated 7 March 2006 entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of the Rights Issue   |
| “USA”                    | United States of America   |
| “HK\$”                   | Hong Kong dollars, the lawful currency of Hong Kong  |
| “S\$”                    | Singapore dollars, the lawful currency of Singapore  |
| “%” or “per cent.”       | percentage or per centum   |

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LETTER FROM THE BOARD

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**EASYKNIT INTERNATIONAL HOLDINGS LIMITED**

**永義國際集團有限公司 \***

*(Incorporated in Bermuda with limited liability)*

(Stock code: 1218)

*Executive Directors:*

Tse Wing Chiu, Ricky

*(President and Chief Executive Officer)*

Lui Yuk Chu

*(Vice President)*

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Independent Non-Executive Directors:*

Wong Sui Wah, Michael

Tsui Chun Kong

Jong Koon Sang

*Head office and principal place  
of business in Hong Kong:*

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

3 April 2006

*To the Qualifying Shareholders, and for information only,  
the Non-Qualifying Shareholders and the holders of Share Options*

Dear Sir or Madam,

**RIGHTS ISSUE  
OF 661,836,693 RIGHTS SHARES  
OF HK\$0.10 EACH AT HK\$0.12 PER RIGHTS SHARE  
ON THE BASIS OF ONE RIGHTS SHARE  
FOR EVERY TWO SHARES HELD  
PAYABLE IN FULL ON ACCEPTANCE**

**INTRODUCTION**

It was announced by the Directors on 8 March 2006 that, subject to the fulfilment of the conditions of the Rights Issue, the Company will raise approximately HK\$79.4 million before expenses, by the Rights Issue of up to 661,836,693 Rights Shares at a price of HK\$0.12 per Rights Share payable in full on acceptance.

\* *For identification only*

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## LETTER FROM THE BOARD

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The Company has Share Options in issue. Upon full exercise of the rights attaching to the outstanding Share Options, at the current subscription price of HK\$0.1418, 132,360,000 Shares will be issued. Between the date of the announcement of the Company dated 8 March 2006 in respect of the Rights Issue and the Record Date, no Share Options were exercised and the number of Rights Shares is fixed at 661,836,693.

The terms of the share option scheme of the Company adopted on 18 February 2002 stipulate that adjustments shall be made to the exercise prices of the Share Options and the number of Shares to be issued on exercise of the Share Options upon the happening of certain events including events such as the Rights Issue. Such adjustments if made will be certified by the auditors as fair and reasonable. The Company will make an announcement about the adjustment in the exercise prices of the Share Options and the number of Shares to be issued on exercise of the Share Options after completion of the Rights Issue.

Save for the Share Options, there are no outstanding warrants, share options or other securities which are convertible into or give rights to subscribe for Shares.

The purpose of this Prospectus is to provide you with details of the Rights Issue, including information on dealing and transfer of Rights Shares in their nil-paid form and the procedure for acceptance of provisional allotments of Rights Shares and certain financial and other information about the Group.

### TERMS OF THE RIGHTS ISSUE

#### Issue statistics

|                                     |   |   |
|-------------------------------------|---|---|
| Basis of the Rights Issue           | : | One Rights Share for every two Shares held on the Record Date |
| Number of Shares in issue           | : | 1,323,673,386 Shares as at the Latest Practicable Date        |
| Number of Rights Shares             | : | 661,836,693 Rights Shares                                     |
| Subscription price per Rights Share | : | HK\$0.12 per Rights Share                                     |

Qualifying Shareholders have been provisionally allotted Rights Shares in the proportion of one Rights Share for every two Shares they held on the Record Date.

#### Rights Price

The Rights Price is payable in full upon acceptance of the relevant provisional allotment of Rights Shares under the Rights Issue or, where applicable, on application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares takes up the Rights Shares.

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## LETTER FROM THE BOARD

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The Rights Price represents to:

|  | <i>HK\$</i> | <i>Discount<br/>(%)</i> |
|--|-------------|-------------------------|
| (a) closing price per Share quoted on the Stock Exchange on the Last Trading Day   | 0.142       | 15.5                    |
| (b) theoretical ex-rights price calculated based on the closing price per Share quoted on the Stock Exchange on the Last Trading Day   | 0.135       | 11.1                    |
| (c) closing price per Share quoted on the Stock Exchange on the Latest Practicable Date on an ex-rights basis  | 0.124       | 3.2                     |
| (d) average closing price per Share for the last 5 full trading days quoted on the Stock Exchange up to and including the Latest Practicable Date on an ex-rights basis  | 0.123       | 2.4                     |
| (e) average closing price per Share for the last 10 full trading days quoted on the Stock Exchange up to and including the Latest Practicable Date on an ex-rights basis   | 0.123       | 2.4                     |
| (f) net asset value per Share based on the unaudited net asset value of the Group of approximately HK\$1,033.6 million and 1,323,673,386 Shares in issue as at 30 September 2005 as stated in the interim report of the Company for the six months ended 30 September 2005 | 0.781       | 84.6                    |

The Rights Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the current market price and historical prices of the Shares. The Directors consider the terms of the Rights Issue, including the Rights Price and the relevant discounts, to be fair and reasonable and in the best interests of the Company and the Shareholders.

### **Basis of provisional allotment**

The basis of the provisional allotment is one Rights Share for every two Shares held by Qualifying Shareholders at the close of business on the Record Date, being 661,836,693 Rights Shares, at the Rights Price. Acceptances of all or any part of a Qualifying Shareholder's provisional allotment can only be made by completing the PAL (ARE or through automated teller machines of participating banks in the case of Qualifying Shareholders in Singapore) and lodging the same with a remittance for the Rights Shares being accepted.

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## LETTER FROM THE BOARD

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### Share certificates and refund cheques for the Rights Shares

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted on or before Tuesday, 25 April 2006 to Shareholders who have accepted and, where applicable, successfully applied for excess Rights Shares and paid for the Rights Shares by ordinary post, at their own risk. Shareholders of Shares traded on the SGX-ST who have accepted and, where applicable, successfully applied for excess Rights Shares, and paid for Rights Shares can expect to have their CDP accounts credited with the Rights Shares within 14 Market Days of Thursday, 20 April 2006. Refund Cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Tuesday, 25 April 2006 by ordinary post to the applicants at their own risk.

### Status of the Rights Shares

The Rights Shares, when allotted and fully-paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares.

### Rights of Overseas Shareholders

Based on the register of members of the Company as at the Latest Practicable Date, there were a total of eight Overseas Shareholders whose registered addresses are outside Hong Kong, Singapore and Bermuda. There were four Overseas Shareholders with registered addresses in Macau, one Overseas Shareholder with registered address in Thailand, one Overseas Shareholder with registered address in the USA and two Overseas Shareholders with registered addresses in Australia respectively. To determine whether to extend the Rights Issue to the aforementioned Overseas Shareholders, the Company has made enquiries as to whether offering the Rights Issue to such Overseas Shareholders would contravene the applicable securities legislations or trigger any filing or registration requirements of the relevant jurisdictions.

Based on the opinions of legal advisers in Macau and Thailand, there is no restriction on the offering of the Rights Issue to the Overseas Shareholders in those jurisdictions. The Directors have determined that it is expedient for the Rights Issue to be extended and offered to Overseas Shareholders in Macau and Thailand.

On the other hand, the legal opinions obtained from the USA and Australia suggested that the offering of the Rights Shares to the Overseas Shareholders in the respective regions is subject to certain restrictions and registration or lodgment of the Prospectus Documents is required. Due to the substantial costs involved and inevitable time delay in compliance with the relevant laws and regulations, the Directors have determined that it is not expedient to make available the Rights Issue to these Overseas Shareholders as such costs would outweigh the possible benefit to the relevant Shareholders and the Company as a whole. Accordingly no provisional allotment of Rights Shares has been made to these Overseas Shareholders, who are thus Non-Qualifying Shareholders.

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## LETTER FROM THE BOARD

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The Prospectus Documents have not been registered under or conformed to the applicable securities legislation of any jurisdictions other than those of Hong Kong, Singapore and Bermuda. Accordingly, no provisional allotment of Rights Shares has been made to Non-Qualifying Shareholders. The Company has sent the Prospectus for the Rights Issue to Non-Qualifying Shareholders for their information only and has not sent and will not send PALs, EAFs, AREs or ARSs to Non-Qualifying Shareholders.

Arrangements have been made for Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and before dealings in nil-paid Rights Shares end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the Non-Qualifying Shareholders. The Company will retain individual amounts of HK\$100 or less for its own benefit. Any unsold entitlements of Non-Qualifying Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be available for excess application on EAFs (AREs or through automated teller machines of participating banks in the case of Shares traded on the SGX-ST) by Qualifying Shareholders.

### **Fractions of Rights Shares**

The Company has not provisionally allotted fractions of Rights Shares. All fractions of Rights Shares will be aggregated and all nil-paid Rights Shares arising from such aggregation will be sold in the market, if a premium (net of expenses) can be achieved, and the Company will retain the proceeds from such sale(s).

### **Applications for excess Rights Shares**

Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders and for any Rights Shares provisionally allotted but not accepted.

Applications for excess Rights Shares can be made by completing the EAFs (AREs or through automated teller machines of participating banks in the case of Shares traded on the SGX-ST) and lodging the same in accordance with the relevant instructions with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis but will give preference to topping-up odd lots to whole board lots.

## **UNDERWRITING ARRANGEMENTS**

### **Underwriting Agreement dated 7 March 2006**

The Underwriter has agreed to underwrite 418,674,354 Rights Shares (which number does not include the 243,162,339 Rights Shares that Magical Profits has undertaken to take up and pay for). The Underwriter is wholly-owned by Get Nice Incorporated, which in turn is wholly-owned by Get Nice

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## LETTER FROM THE BOARD

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Holdings Limited (stock code: 64), a company listed on the main board of the Stock Exchange. The Underwriter and its ultimate controlling shareholder do not have any shareholdings in the Company and are independent third parties not connected with the Company, the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates.

### Commission

The Company will pay the Underwriter an underwriting commission of 1.0 per cent. of the aggregate subscription price of the Rights Shares underwritten by it, which amounts to approximately HK\$0.5 million, out of which the Underwriter must pay any sub-underwriting fees. The Directors believe that the underwriting commission accords with market rates.

### Undertaking from Magical Profits

Magical Profits, which is beneficially owned by The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, an executive Director, and members of her family (other than spouse)) is interested in 486,324,678 Shares, representing approximately 36.7% of the total issued share capital of the Company. Magical Profits has irrevocably undertaken to the Company and the Underwriter to take up its entitlement in full, representing 243,162,339 Rights Shares. Magical Profits will not apply for any excess Rights Shares.

### SHAREHOLDINGS IN THE COMPANY

The shareholdings in the Company immediately before and after completion of the Rights Issue are set out as follows:

|                 | Immediately<br>before completion of<br>the Rights Issue |                     | After completion of<br>the Rights Issue<br>(assuming all Rights<br>Shares are taken up by<br>Qualifying Shareholders<br>or sold in the market) |                     | After completion of<br>the Rights Issue<br>(assuming only Magical<br>Profits takes up its<br>Rights Shares) |                     |
|-----------------|---|---------------------|--|---------------------|---|---------------------|
|                 | Shares  | %                   | Shares   | %                   | Shares  | %                   |
| Magical Profits | 486,324,678   | 36.7                | 729,487,017  | 36.7                | 729,487,017   | 36.7                |
| Public          | 837,348,708   | 63.3                | 1,256,023,062  | 63.3                | 837,348,708   | 42.2                |
| Underwriter     | 0   | 0.0                 | 0  | 0.0                 | 418,674,354   | 21.1                |
| <b>Total</b>    | <b><u>1,323,673,386</u></b>                             | <b><u>100.0</u></b> | <b><u>1,985,510,079</u></b>  | <b><u>100.0</u></b> | <b><u>1,985,510,079</u></b>   | <b><u>100.0</u></b> |



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## LETTER FROM THE BOARD

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### TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by it to the Company at any time prior to 4:00 p.m. on the Settlement Date if:

1. there occurs:
  - (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
  - (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the USA) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
  - (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or

2. the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
3. the Underwriter receives notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or

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## LETTER FROM THE BOARD

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4. the Prospectus Documents contain information which would be untrue or inaccurate in any material respect and the Company has failed to send out promptly any announcements or circulars (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter such fees or expenses as may then be agreed by the Underwriter and the Company. If the Underwriter exercises such right, the Rights Issue will not proceed.

### CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon, among other things, each of the following events being fulfilled:

1. the Listing Committee of the Stock Exchange and the SGX-ST each agreeing to grant listings of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms, either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any) by no later than the dates specified in such approvals and not having withdrawn or revoked such listings and permission on or before 4:00 p.m. on the Settlement Date;
2. the delivery to the Stock Exchange and filing and registration of all documents relating to the Rights Issue required by law to be filed, with the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda and, if required, the Registrar of Companies and Businesses in Singapore;
3. the obtaining of the permission of the BMA for the issue of the Rights Shares, if necessary;
4. the obtaining of all regulatory approvals under the laws of Singapore necessary to give effect to the Rights Issue, if any;
5. the posting of the Prospectus Documents to the Qualifying Shareholders; and
6. the compliance by the Company with all its obligations under the Underwriting Agreement and the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated.

As at the date of this Prospectus, conditions 3 and 5 have been fulfilled.

Permission under the Exchange Control Act 1972 of Bermuda (as amended) (and regulations made thereunder) has been granted by the BMA in respect of the issue of the Rights Shares to persons

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## LETTER FROM THE BOARD

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regarded as non-residents of Bermuda for exchange control purposes subject to the requirement that the Shares are listed on the Stock Exchange. In granting such permission and in accepting the Prospectus for filing, neither the BMA nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any of the statements made on, or opinions expressed in the Prospectus Documents. The SGX-ST has approved in-principle for the listing of and quotation for the Rights Shares subject to the approval of the Stock Exchange for the Rights Issue in Hong Kong. The in-principle approval of the SGX-ST is not an indication of the merits of the Company, its subsidiaries or the Rights Issue. The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed, in this Prospectus. As the Company's primary listing is in Hong Kong, it is not required to comply with SGX-ST's continuing listing rules.

In the event that the conditions of the Rights Issue are not fulfilled and/or waived (other than conditions 1, 2, 3, 4 and 5 which cannot be waived) in whole or in part by the Underwriter on or before 4:00 p.m. on the Settlement Date as determined in the Underwriting Agreement (or such later date as the Company and the Underwriter may agree), neither the Underwriter nor the Company shall have any rights or be subject to any obligations arising from the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter such fees or expenses as may then be agreed by the Underwriter and the Company. If the Underwriter exercises such right, the Rights Issue will not proceed and the irrevocable undertaking by Magical Profits to accept its entitlement under the Rights Issue will lapse.

### **WARNING OF THE RISKS OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES**

**Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 6 April 2006 to Thursday, 13 April 2006 (both dates inclusive) on the Stock Exchange and from Monday, 3 April 2006 to Tuesday, 4 April 2006 (both dates inclusive) on the SGX-ST whilst the conditions to which the Rights Issue is subject remain unfulfilled. If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated, the Rights Issue will not proceed.**

**Any Shareholders or other persons dealing in the Shares from now up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be Monday, 24 April 2006), or in the Rights Shares in the nil-paid form during the period from Thursday, 6 April 2006 to Thursday, 13 April 2006 (Monday, 3 April 2006 to Tuesday, 4 April 2006 in the case of Shares traded on the SGX-ST), being the respective first and the last day of dealings in the nil-paid Rights Shares (both dates inclusive), will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in the nil-paid form during such periods who are in any doubt about their position are recommended to consult their professional advisers.**

### **REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS**

The estimated expenses of the Rights Issue amount to approximately HK\$1.8 million and will be borne by the Company. The estimated net proceeds of the Rights Issue will be approximately HK\$77.6 million.

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## LETTER FROM THE BOARD

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The Group is principally engaged in: (a) the sourcing and export of cotton-based knitted garments for infants, children and women; and (b) property investment. The Company plans to use the proceeds from the Rights Issue to expand its property portfolio as and when opportunities arise and the balance, if any, for general working capital purposes.

The Directors maintain the view that the local property market will benefit from the upturn of Hong Kong's economy, as stated in the interim report of the Group for the six months ended 30 September 2005. In addition to its plans to expand its property portfolio in Hong Kong, the Group will also explore opportunities in other Asian regions such as Macau and the PRC. While the management has been active in identifying potential projects, the Company has yet to identify any specific property projects as at the date hereof. The Directors nonetheless are of the view that suitable investment opportunities may arise at any time and investment decisions may have to be made within a short period of time. Sufficient cash resources will therefore be necessary in order for the Group to be competitive in securing such opportunities.

The Directors have considered other ways of fund raising such as bank borrowing and placing of new Shares and are of the opinion that bank borrowing will incur interest costs while placing of new Shares will result in dilution of the interests of Shareholders. The Rights Issue will enhance the capital base of the Group while allowing Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company. On this basis, the Directors consider that it is in the interests of the Company and its Shareholders as a whole to raise capital through the Rights Issue.

The Company has not conducted any fund raising exercise in the 12 months preceding the date of this Prospectus.

### PERSONS HOLDING SHARES THROUGH CDP

Persons holding Shares through CDP in Singapore should receive a letter from CDP relating to the Rights Issue and should refer to that letter for, inter alia, the procedures for application for the Rights Shares and the information in appendix V to this Prospectus. The information below does not relate to applications by persons holding Shares through CDP.

### PROCEDURES FOR ACCEPTANCE OR TRANSFER

**If you are a Qualifying Shareholder in Hong Kong, a PAL is enclosed with this Prospectus which entitles you to subscribe for the number of Rights Shares shown thereon. If you wish to exercise your right to subscribe for all the Rights Shares specified in the enclosed PAL, you must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar no later than 4:00 p.m. on Thursday, 20 April 2006. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "Easyknit International Holdings Limited — Rights Issue Account" and crossed "Account Payee Only".**

It should be noted that unless the PAL, together with the appropriate remittance, has been lodged to the Registrar by 4:00 p.m. on Thursday, 20 April 2006, whether by the original allottee or any person in whose favour the rights have been transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

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## LETTER FROM THE BOARD

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If you wish to accept only part of your provisional allotment or transfer a part of your rights to subscribe for the Rights Shares provisionally allotted under the PAL or to transfer all of your rights, the entire PAL letter must be surrendered by not later than 4:00 p.m. on Monday, 10 April 2006 to the Registrar who will cancel the original PAL and issue a new PAL in the denominations required. The PALs contain full information regarding the procedures to be followed if you wish to accept only part of your provisional allotment or if you wish to transfer all or part of your provisional allotment.

All cheques and cashier's orders will be presented for payment following receipt and any interest earned on such monies will be retained for the benefit of the Company. Any PAL in respect of which a cheque or cashier's order is dishonoured on first presentation is liable to be rejected and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled. If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement before 4:00 p.m. on the Settlement Date the monies received in respect of the relevant provisional allotments will be returned to the relevant persons without interest, by means of cheques despatched by ordinary post at the risk of such applicants on or before Tuesday, 25 April 2006.

### APPLICATIONS FOR EXCESS RIGHTS SHARES

Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders and for any Rights Shares provisionally allotted but not accepted.

Applications for excess Rights Shares can be made by completing the EAFs (AREs or through automated teller machines of participating banks in the case of Shares traded on the SGX-ST) and lodging the same in accordance with the relevant instructions with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis but will give preference to topping-up odd lots to whole board lots.

**If you wish to apply for any Rights Shares in addition to your provisional allotment, you must complete and sign the enclosed EAF as indicated thereon and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Registrar no later than 4:00 p.m. on Thursday, 20 April 2006. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "Easyknit International Holdings Limited — Excess Application Account" and crossed "Account Payee Only". The Registrar will notify you of any allotment of excess Rights Shares made to you.**

If no excess Rights Shares are allotted to you, the amount tendered on application is expected to be refunded in full on or before Tuesday, 25 April 2006. If the number of excess Rights Shares allotted to you is less than that applied for, the surplus application monies are also expected to be refunded to you on or before Tuesday, 25 April 2006. If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement before 4:00 p.m. on the Settlement Date, the monies received in respect of relevant applications for excess Rights Shares will be returned to the relevant persons without interest, by means of cheques despatched by ordinary post at the risk of such applicants on or before Tuesday, 25 April 2006.

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## LETTER FROM THE BOARD

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All cheques and cashier's orders will be presented for payment following receipt and any interest earned on such monies will be retained for the benefit of the Company. Any EAF in respect of which a cheque or cashier's order is dishonoured on first presentation is liable to be rejected.

The EAFs are for use only by the persons to whom they are addressed and are not transferable.

**The above procedures relating to application of Rights Shares and excess Rights Shares are applicable only to Qualifying Shareholders with their Shares listed on the Stock Exchange. For Qualifying Shareholders with their Shares listed on the SGX-ST, they should follow the procedures and instructions set out in the ARE relating to application for Rights Shares and excess Rights Shares.**

### LISTINGS AND DEALINGS

Applications have been made to the Listing Committee of the Stock Exchange and the SGX-ST respectively for listings of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. The SGX-ST has approved in-principle for the listing of and quotation for the Rights Shares subject to the approval of the Stock Exchange for the Rights Issue in Hong Kong. The in-principle approval of the SGX-ST is not an indication of the merits of the Company, its subsidiaries or the Rights Issue. As the Company's primary listing is in Hong Kong, it is not required to comply with SGX-ST's continuing listing rules.

The Shares will not be listed or dealt in on any other stock exchange outside Hong Kong and Singapore. Apart from the Shares and the Rights Shares, no part of the securities of the Company is listed or dealt in nor is any listing of or permission to deal in securities of the Company being or proposed to be sought on any other stock exchange.

Dealings in the nil-paid Rights Shares are expected to commence on Thursday, 6 April 2006 and to cease at the close of business of the Stock Exchange on Thursday, 13 April 2006 in Hong Kong and from Monday, 3 April 2006 to Tuesday, 4 April 2006 in Singapore. The latest time for splitting of nil-paid Rights Shares will be 4:00 p.m. on Monday, 10 April 2006.

Subject to the granting of the listings of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange and the SGX-ST, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC and the CDP for deposit, clearance and settlement in CCASS and the CDP respectively with effect from the commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange and the SGX-ST or such other dates as may be determined by HKSCC or the CDP. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter and settlement of transactions between participants of the SGX-ST on any trading day is required to take place on the third Market Day following the date of transactions. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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## LETTER FROM THE BOARD

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All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS. For the purpose of trading on the Stock Exchange, a board lot for the Rights Shares in both their nil-paid and fully-paid forms will be 5,000 Shares. Dealings in the Rights Shares in both their nil-paid and fully-paid forms registered in the register of members of the Company in Hong Kong will be subject to payment of stamp duty in Hong Kong. The nil-paid Rights Shares will also be traded on the SGX-ST.

### SHARE CERTIFICATES

It is expected that share certificates for the fully-paid Rights Shares will be posted to those entitled thereto at their own risk by the Registrar on or before Tuesday, 25 April 2006.

Where entitlements to Rights Shares exceed one board lot, it is proposed, so far as is practicable, to issue share certificates in integral multiples of board lot of 5,000 Shares each, with a certificate for the balance.

### BUSINESS REVIEW

#### *Garment sourcing and export*

For the two years ended 31 March 2005 and the six months ended 30 September 2005, the total turnover of the Group amounted to approximately HK\$706.0 million, HK\$590.0 million and HK\$261.8 million respectively, of which garment sourcing and export accounted for approximately 83.7%, 88.1% and 93.0% respectively of the Group's total turnover, which remained the major business of the Group.

During the financial year ended 31 March 2005, the Group altered its product mix to produce more infant garments to cater for the changes in customer demands. The product mix of infant wear and ladies wear was 35:56 as compared to 24:67 for the year ended 31 March 2004. Turnover from this segment diminished by approximately 12.1% to approximately HK\$519.5 million for the year ended 31 March 2005 (2004: approximately HK\$590.9 million), which was largely due to the relatively lower selling price of the infant wear and the reduction in sales of the "Mary Mac" brand name products, which resulting from a change in management of the regional office in the USA. Profit generated from the garment sourcing and export segment amounted to approximately HK\$23.7 million for the year ended 31 March 2005 (2004: approximately HK\$36.2 million).

For the six months ended 30 September 2005, turnover from this segment increased by approximately 15.5% to approximately HK\$243.6 million (2004: approximately HK\$210.8 million). However, due to an impairment loss on trade and other receivables of approximately HK\$33.3 million, this segment suffered loss of approximately HK\$24.7 million for the six months ended 30 September 2005 as compared to profit of approximately HK\$6.3 million for the corresponding period in 2004.

The USA continued to be the Group's major export market, accounting for approximately 74.5%, 79.5% and 87.2% respectively of the Group's total turnover for the two years ended 31 March 2005 and the six months ended 30 September 2005. The remaining contribution from this segment for the six months ended 30 September 2005 was generated from sales to customers in Hong Kong, Mexico and Canada.



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## LETTER FROM THE BOARD

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### *Property investment*

For the two years ended 31 March 2005 and the six months ended 30 September 2005, turnover attributable to the property investment segment of the Group accounted for approximately 8.1%, 10.8% and 7.0% respectively of the Group's total turnover, which amounted to approximately HK\$57.5 million, HK\$63.5 million and HK\$18.3 million for those periods respectively.

Benefiting from the growth of the Hong Kong property market during the financial year ended 31 March 2005, the profits from this segment increased nearly 1.9 times to approximately HK\$169.9 million (2004: approximately HK\$59.1 million). For the six months ended 30 September 2005, profit from this segment increased approximately 11.6 times to approximately HK\$169.0 million (2004: approximately HK\$13.4 million), which was principally due to the gain on fair value changes of investment properties.

All of the Group's investment properties are located in Hong Kong, and continued to provide a stable income flow to the Group for the two years ended 31 March 2005 and the six months ended 30 September 2005 with turnover of approximately HK\$23.1 million, HK\$24.3 million and HK\$12.0 million for those periods respectively.

As at 30 September 2005, the Group's commercial rental properties were 100% leased. Its industrial rental properties also maintained a high occupancy rate of over 86%. The building management fee income was approximately HK\$130,000 for the six months ended 30 September 2005 (2004: nil). As at 30 September 2005, the Group's entire portfolio was valued at over HK\$573.2 million.

## **PROSPECTS**

### *Garment sourcing and export*

Although the re-imposition of textile quotas by the USA 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 the second half of the financial year ended 31 March 2006 based on the existing orders on hand. Efforts are being made to promote the Group's garment brand "Mary Mac" targeting the fast-growing PRC market through its regional office in New York. The Group will endeavour to expand its sales network into other Asian markets and to reduce reliance on the USA market.

### *Property investment*

The Directors are of the view that the local property market will benefit from the upturn in Hong Kong's economy. With the opening of Disneyland and the extension of the "Individual Visit Scheme" for Mainland visitors, tourism in Hong Kong is expected to grow steadily. These factors are likely to lead to rent increases, especially for retail shops located in prime areas such as Causeway Bay, Tsimshatsui and Mongkok, and bring in increased revenue to the Group. The Group will extend its investment property portfolio when opportunities arise.



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## LETTER FROM THE BOARD

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### GENERAL

All documents, including cheques for amounts due, will be sent by post at the risk of the persons entitled thereto to their registered addresses.

### FURTHER INFORMATION

Your attention is drawn to the further information set out in the appendices to this Prospectus.

Yours faithfully,  
For and on behalf of  
**Easyknit International Holdings Limited**  
**Tse Wing Chiu, Ricky**  
*President and Chief Executive Officer*

**1. DIRECTORS****Particulars of Directors****Name****Address****Executive Directors:**

Tse Wing Chiu, Ricky

House D6  
Flamingo Garden  
No. 7 Fei Wan Road  
Fei Ngo Shan  
New Territories  
Hong Kong

Lui Yuk Chu

No. 11 Keng Hau Road  
Shatin  
New Territories  
Hong Kong**Independent Non-Executive Directors:**

Wong Sui Wah, Michael

Flat A, 4/F  
Sunfair Mansion  
12 Shiu Fai Terrace  
Stubbs Road  
Hong Kong

Tsui Chun Kong

Unit 6, 9/F, Block 43  
Heng Fa Chuen  
Chai Wan  
Hong Kong

Jong Koon Sang

Unit 3, 8/F, Block 45  
Heng Fa Chuen  
Chai Wan  
Hong Kong

**Executive Directors**

**Tse Wing Chiu, Ricky**, aged 47, 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 and authorised representative of Asia Alliance. Mr. Tse obtained a Master's Degree in Business Administration from Adam Smith University of America in the USA in 1996. He has over 29 years of experience in garment manufacturing and merchandising. He serves as director of various subsidiaries of the Company and Asia Alliance. Mr. Tse did not hold any other directorships in listed companies in the last three years. He was appointed to the Board in November 2005.

**Lui Yuk Chu**, 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. Ms. Lui is also an executive director and Deputy Chairman of Asia Alliance. She has been involved in the textiles industry for more than 27 years and has extensive experience in design, manufacturing, marketing and distribution of apparel. She serves as director of various subsidiaries of the Company and Asia Alliance. Ms. Lui did not hold any other directorships in listed companies in the last three years. She was appointed to the Board in September 1994.

**Independent Non-Executive Directors**

**Wong Sui Wah, Michael**, 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 did not hold any other directorships in listed companies in the last three years. He was appointed to the Board in October 2000.

**Tsui Chun Kong**, aged 54, 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 USA 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 32 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 did not hold any other directorships in listed companies in the last three years. He was appointed to the Board in September 2004.

**Jong Koon Sang**, 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 Honorary Secretary of The Association of International Accountants, Hong Kong Branch, the accountant ambassador of The Hong Kong Institute of Certified Public Accountants and a mentor of Hong Kong University of Science and Technology, Department of Accounting. Mr. Jong has over 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 did not hold any other directorships in listed companies in the last three years. He was appointed to the Board in January 2005.

**2. CORPORATE INFORMATION**

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|---|--|
| <b>Registered office</b>  | Canon's Court<br>22 Victoria Street<br>Hamilton HM 12<br>Bermuda   |
| <b>Principal place of business</b>                                  | Unit A, 7th Floor<br>Hong Kong Spinners Building<br>Phase 6, 481-483 Castle Peak Road<br>Cheung Sha Wan, Kowloon<br>Hong Kong  |
| <b>Company secretary</b>  | Chan Po Cheung<br>FCPA, FCCA, ACA  |
| <b>Authorised representatives</b>                                   | Tse Wing Chiu, Ricky<br>Chan Po Cheung   |
| <b>Legal advisers to the Company</b>                                | <i>On Hong Kong law:</i><br>Richards Butler<br>20th Floor<br>Alexandra House<br>16-20 Chater Road<br>Hong Kong<br><br><i>On Bermuda law:</i><br>Appleby Spurling Hunter<br>5511 The Center<br>99 Queen's Road Central<br>Hong Kong |
| <b>Auditors</b>   | Deloitte Touche Tohmatsu<br><i>Certified Public Accountants</i><br>26th Floor, Wing On Centre<br>111 Connaught Road Central<br>Hong Kong   |
| <b>Registrar and transfer office<br/>in Hong Kong</b>               | Secretaries Limited<br>26th Floor, Tesbury Centre<br>28 Queen's Road East<br>Wanchai<br>Hong Kong  |
| <b>Principal share registrar and<br/>transfer office in Bermuda</b> | Butterfield Fund Services (Bermuda) Limited<br>65 Front Street<br>Hamilton HM12<br>Bermuda   |

|                          |   |
|--------------------------|---|
| <b>Principal bankers</b> | <p>The Hongkong and Shanghai Banking Corporation Limited<br/>1 Queen's Road<br/>Central<br/>Hong Kong</p> <p>Hang Seng Bank Limited<br/>83 Des Voeux Road Central<br/>Hong Kong</p> |
|--------------------------|---|

### 3. SHARE CAPITAL AND SHARE OPTIONS

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following the Rights Issue are, and are expected to be as follows:

|                                   |  |                         |
|-----------------------------------|--|-------------------------|
| <i>Authorised:</i>                |  | <i>HK\$</i>             |
| <u>10,000,000,000</u>             | Shares   | <u>1,000,000,000.00</u> |
| <br><i>Issued and fully-paid:</i> |  |                         |
| 1,323,673,386                     | Shares in issue  | 132,367,338.60          |
| <u>661,836,693</u>                | Shares to be issued pursuant to the Rights Issue       | <u>66,183,669.30</u>    |
| <u>1,985,510,079</u>              | Shares in issue immediately following the Rights Issue | <u>198,551,007.90</u>   |

Each of the Shares in issue ranks *pari passu* with all other Shares in all respects including as to rights to dividends, voting and return of capital. The Shares to be issued pursuant to the Rights Issue, when fully paid and issued, will rank *pari passu* in all respects with the then issued Shares including as to the right to receive dividends and distributions which may be declared, made or paid after the issue of the Rights Shares.

The Company has its primary listing on the Stock Exchange and secondary listing on the SGX-ST. Save as disclosed herein, no part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchanges.

Save as disclosed herein, no Share or loan capital of the Company or any of its subsidiaries has been put under option or agreed conditionally or unconditionally to be put under option.

The Company had Share Options in issue as at the Latest Practicable Date. Upon full exercise of the rights attaching to the outstanding Share Options, at the current subscription price of HK\$0.1418, 132,360,000 Shares will be issued. Save for the Share Options, there are no outstanding warrants, share options or other securities which are convertible into or give rights to subscribe for Shares.

## 1. UNAUDITED INTERIM RESULTS OF THE GROUP

Set out below are the extracts from pages 1 to 17 of the unaudited interim results for the six months ended 30 September 2005 of the Group with comparative figures. These interim financial statements have been reviewed by the Company's audit committee.

**CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

|  | NOTES | Six months ended      |                     |
|--|-------|-----------------------|---------------------|
|  |       | 30 September          |                     |
|  |       | 2005                  | 2004                |
|  |       | HK\$'000              | HK\$'000            |
|  |       | (Unaudited)           | (Unaudited)         |
|  |       |                       | (Restated)          |
| Turnover   | 4     | 261,836               | 255,711             |
| Cost of sales  |       | <u>(214,046)</u>      | <u>(195,032)</u>    |
| Gross profit   |       | 47,790                | 60,679              |
| Other operating income   |       | 3,630                 | 2,879               |
| Gain on fair value changes of investment properties                            |       | 157,030               | —                   |
| Loss on fair value changes of investments at fair value through profit or loss |       | (151,070)             | —                   |
| Unrealised gain on other investments   |       | —                     | 28,670              |
| Distribution costs   |       | (6,182)               | (11,335)            |
| Administrative expenses  |       | (23,684)              | (27,448)            |
| Impairment loss on trade and other receivables                                 | 6     | (33,302)              | (4,323)             |
| Loss on disposal of investment properties                                      |       | <u>(1,136)</u>        | <u>—</u>            |
| (Loss) profit from operations  | 4 & 5 | (6,924)               | 49,122              |
| Gain on disposal of subsidiaries   |       | —                     | 30,884              |
| Share of results of associates   |       | (2,496)               | 2,819               |
| Finance costs  | 7     | <u>(3,115)</u>        | <u>(1,689)</u>      |
| (Loss) profit before taxation  |       | (12,535)              | 81,136              |
| Taxation   | 8     | <u>(1,403)</u>        | <u>(5,310)</u>      |
| (Loss) profit for the period attributable to equity holders of the Company     |       | <u>(13,938)</u>       | <u>75,826</u>       |
| Basic (loss) earnings per share  | 9     | <u>(1.05)HK cents</u> | <u>6.74HK cents</u> |

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2005

|  | NOTES | 30 September<br>2005<br>HK\$'000<br>(Unaudited) | 31 March<br>2005<br>HK\$'000<br>(Audited)<br>(Restated) |
|--|-------|---|---|
| <b>Non-current assets</b>  |       |   |   |
| Property, plant and equipment                                    | 11    | 24,395  | 24,435  |
| Investment properties  | 12    | 557,000   | 619,970   |
| Club debenture   |       | 921   | 921   |
| Interests in associates  |       | 65,024  | 15,729  |
|  |       | <u>647,340</u>                                  | <u>661,055</u>  |
| <b>Current assets</b>  |       |   |   |
| Properties held for sale   |       | 16,248  | 21,624  |
| Investments at fair value through profit or loss                 |       | 101,262   | —   |
| Other investments  |       | —   | 244,030   |
| Inventories  |       | 7,764   | 2,423   |
| Trade and other receivables                                      | 13    | 93,841  | 196,213   |
| Loans receivable   |       | 145,662   | 71,875  |
| Bills receivable   |       | 32,792  | 44,925  |
| Tax recoverable  |       | 2,051   | 2,051   |
| Bank balances and cash   |       | 215,777   | 83,901  |
|  |       | <u>615,397</u>                                  | <u>667,042</u>  |
| <b>Current liabilities</b>                                       |       |   |   |
| Trade and other payables   | 14    | 37,497  | 37,118  |
| Bills payable  |       | 7,403   | 1,564   |
| Consideration repayable on disposal of subsidiaries              | 18    | —   | 11,120  |
| Tax payable  |       | 24,438  | 23,727  |
| Obligations under finance leases — amount due within<br>one year |       | 8   | 18  |
| Secured borrowings — amount due within one year                  |       | 107,572   | 120,986   |
|  |       | <u>176,918</u>                                  | <u>194,533</u>  |
| <b>Net current assets</b>  |       | <u>438,479</u>                                  | <u>472,509</u>  |
|  |       | <u>1,085,819</u>                                | <u>1,133,564</u>  |



**APPENDIX II****FINANCIAL INFORMATION OF THE GROUP**

|  | <i>NOTES</i> | <b>30 September<br/>2005</b><br><i>HK\$'000</i><br><i>(Unaudited)</i> | <b>31 March<br/>2005</b><br><i>HK\$'000</i><br><i>(Audited)</i><br><i>(Restated)</i> |
|--|--------------|---|--|
| <b>Capital and reserves</b>                    |              |   |  |
| Share capital                                  | 15           | 132,367   | 132,367  |
| Reserves                                       |              | <u>901,253</u>  | <u>921,321</u>   |
|  |              | <u>1,033,620</u>  | <u>1,053,688</u>   |
| <b>Non-current liabilities</b>                 |              |   |  |
| Secured borrowings — amount due after one year |              | 37,994  | 66,363   |
| Deferred tax liabilities                       | 16           | <u>14,205</u>   | <u>13,513</u>  |
|  |              | <u>52,199</u>   | <u>79,876</u>  |
|  |              | <u>1,085,819</u>  | <u>1,133,564</u>   |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

|   | Attributable to equity holders of the Company |                              |                                |                                 |                                |                                    | Accumulated<br>(losses)<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|------------------------------|--------------------------------|---------------------------------|--------------------------------|------------------------------------|--|-------------------|
|   | Share<br>capital<br>HK\$'000                  | Share<br>premium<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Exchange<br>reserve<br>HK\$'000 | Special<br>reserve<br>HK\$'000 | Contributed<br>surplus<br>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<br>accounting policies<br>(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<br>recognised income for the<br>year  | —   | —                            | —                              | —                               | —                              | —                                  | 348,469  | 348,469           |
| Reductions of share premium<br>and capital reserve and<br>offsetting of accumulated<br>losses (see note 17) | —   | (1,117,131)                  | (895,932)                      | —                               | —                              | 227,555                            | 1,785,508                                      | —                 |
| Rights issue of shares at a<br>price of HK\$0.11 per<br>rights share  | 44,122  | 4,412                        | —                              | —                               | —                              | —                                  | —  | 48,534            |
| 2004 final dividend paid<br>(see note 10)   | —   | —                            | —                              | —                               | —                              | (6,618)                            | —  | (6,618)           |
| At 31 March 2005  | <u>132,367</u>                                | <u>4,412</u>                 | <u>—</u>                       | <u>—</u>                        | <u>9,800</u>                   | <u>220,937</u>                     | <u>686,172</u>                                 | <u>1,053,688</u>  |
| At 1 April 2005   |   |                              |                                |                                 |                                |                                    |  |                   |
| — as previously reported  | 132,367                                       | 4,412                        | —                              | —                               | 9,800                          | 220,937                            | 697,968  | 1,065,484         |
| — effect of changes in<br>accounting policies<br>(see note 3)   | —   | —                            | —                              | —                               | —                              | —                                  | (11,796)                                       | (11,796)          |
| — as restated   | 132,367                                       | 4,412                        | —                              | —                               | 9,800                          | 220,937                            | 686,172  | 1,053,688         |
| Share of exchange reserve<br>of associates  | —   | —                            | —                              | 488                             | —                              | —                                  | —  | 488               |
| Net gain recognised directly<br>in equity   | —   | —                            | —                              | 488                             | —                              | —                                  | —  | 488               |
| Loss for the period   | —   | —                            | —                              | —                               | —                              | —                                  | (13,938)                                       | (13,938)          |
| Total recognised income and<br>expense for the period   | —   | —                            | —                              | 488                             | —                              | —                                  | (13,938)                                       | (13,450)          |
| 2005 final dividend paid<br>(see note 10)   | —   | —                            | —                              | —                               | —                              | —                                  | (6,618)  | (6,618)           |
| At 30 September 2005  | <u>132,367</u>                                | <u>4,412</u>                 | <u>—</u>                       | <u>488</u>                      | <u>9,800</u>                   | <u>220,937</u>                     | <u>665,616</u>                                 | <u>1,033,620</u>  |

|   | Attributable to equity holders of the Company |                              |                                |                                 |                                |                                    |  | Total<br>HK\$'000 |
|---|---|------------------------------|--------------------------------|---------------------------------|--------------------------------|------------------------------------|--|-------------------|
|   | Share<br>capital<br>HK\$'000                  | Share<br>premium<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Exchange<br>reserve<br>HK\$'000 | Special<br>reserve<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000 | Accumulated<br>(losses)<br>profits<br>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<br>accounting policies<br>(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 period and total<br>recognised income for the<br>period                                      | —   | —                            | —                              | —                               | —                              | —                                  | 75,826   | 75,826            |
| Reductions of share premium<br>and capital reserve and<br>offsetting of accumulated<br>losses (see note 17) | —   | (1,117,131)                  | (895,932)                      | —                               | —                              | 227,555                            | 1,785,508                                      | —                 |
| Rights issue of shares at a<br>price of HK\$0.11 per<br>rights share  | 44,122  | 4,412                        | —                              | —                               | —                              | —                                  | —  | 48,534            |
| 2004 final dividend paid<br>(see note 10)   | —   | —                            | —                              | —                               | —                              | (6,618)                            | —  | (6,618)           |
| At 30 September 2004  | <u>132,367</u>                                | <u>4,412</u>                 | <u>—</u>                       | <u>—</u>                        | <u>9,800</u>                   | <u>220,937</u>                     | <u>413,529</u>                                 | <u>781,045</u>    |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005**

|  | <b>Six months ended</b> |                      |
|--|-------------------------|----------------------|
|  | <b>30 September</b>     |                      |
|  | <b>2005</b>             | <b>2004</b>          |
|  | <i>HK\$'000</i>         | <i>HK\$'000</i>      |
|  | (Unaudited)             | (Unaudited)          |
| Net cash from (used in) operating activities   | <u>103,579</u>          | <u>(7,273)</u>       |
| Net cash from investing activities   |                         |                      |
| Net cash outflow from advance of loans   | (73,787)                | (2,048)              |
| Proceeds on disposal of investment properties  | 218,864                 | —                    |
| Capital contribution to associates   | (51,303)                | —                    |
| Acquisition of investments at fair value through<br>profit or loss/other investments     | (8,302)                 | (48,973)             |
| Proceeds from disposal of other investments  | —                       | 5,158                |
| Payment of consideration repayable on disposal<br>of subsidiaries                        | (11,120)                | —                    |
| Consideration received on disposal of a subsidiary                                       | —                       | 39,500               |
| Disposal of subsidiaries, net of cash and cash<br>equivalents disposal of                | —                       | 49,352               |
| Other investing activities   | <u>2,356</u>            | <u>(580)</u>         |
|  | <u>76,708</u>           | <u>42,409</u>        |
| Net cash used in financing activities  | <u>(48,411)</u>         | <u>(34,046)</u>      |
| Net increase in cash and cash equivalents  | 131,876                 | 1,090                |
| Cash and cash equivalents at beginning of the period                                     | <u>83,901</u>           | <u>67,357</u>        |
| Cash and cash equivalents at end of the period,<br>represented by bank balances and cash | <u><u>215,777</u></u>   | <u><u>68,447</u></u> |

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS***FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005***1. GENERAL AND BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

The principal accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2005 except as disclosed below.

In the current period, 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 HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of share of tax of associates has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

**Share-based payments**

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

**Financial instruments**

In the current period, 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 are presented for current and prior periods. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. 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 classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

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 the profit or loss. “Held-to-maturity investments” are carried at amortised cost less impairment losses (if any).

From 1 April 2005 onwards, the Group classifies and measures 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”. The classification depends on the purpose for which the assets are acquired. “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 the profit or loss and equity respectively. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method.

On 1 April 2005, the Group reclassified its “other investments” with carrying amount of HK\$244,030,000 to “investments at fair value through profit or loss” 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 classifies and measures 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 “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method after initial recognition. No adjustment has been made to the Group’s accumulated profits at 1 April 2005.

*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 is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 April 2005. As a result, the Group's bills receivable discounted with full recourse which were derecognised prior to 1 April 2005 have not been restated. The Group's bills receivable discounted with full recourse on or after 1 April 2005 have not been derecognised. Instead, the related borrowings of HK\$10,672,000 have been recognised on the consolidated balance sheet as at 30 September 2005. This change has had no material effect on the results for the current period.

**Owner-occupied leasehold interest in land**

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, 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, the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

**Investment properties**

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, 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 revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The application of HKAS 40 has no material impact on the Group's accumulated profits at 1 April 2005.

**Deferred taxes related to investment properties**

In previous periods, 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 period, 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 are 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 have been restated (see note 3 for the financial impact).

## 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:

|  | Six months ended<br>30 September |                         |
|--|----------------------------------|-------------------------|
|  | 2005<br><i>HK\$'000</i>          | 2004<br><i>HK\$'000</i> |
| Increase in gain on fair value changes of investment properties        | 157,030                          | —                       |
| Increase in deferred tax liabilities relating to investment properties | <u>(707)</u>                     | <u>(80)</u>             |
| Increase (decrease) in profit for the period                           | <u>156,323</u>                   | <u>(80)</u>             |

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<br><i>HK\$'000</i><br><i>(previously<br/>stated)</i> | Adjustments<br><i>HK\$'000</i> | 31.3.2005<br><i>HK\$'000</i><br><i>(restated)</i> | Adjustments<br><i>HK\$'000</i> | 1.4.2005<br><i>HK\$'000</i><br><i>(restated)</i> |
|---|--|--------------------------------|---|--------------------------------|--|
| <b>Balance sheet items</b>                          |  |                                |   |                                |  |
| Other investments                                   | 244,030  | —                              | 244,030   | (244,030)                      | —  |
| Investments at fair value<br>through profit or loss | —  | —                              | —   | 244,030                        | 244,030  |
| Deferred tax liabilities                            | <u>(1,717)</u>   | <u>(11,796)</u>                | <u>(13,513)</u>                                   | <u>—</u>                       | <u>(13,513)</u>                                  |
| Total effects on assets and liabilities             |  | <u>(11,796)</u>                |   | <u>—</u>                       |  |
| Accumulated profits and total<br>effect on equity   | <u>697,968</u>   | <u>(11,796)</u>                | <u>686,172</u>                                    | <u>—</u>                       | <u>686,172</u>                                   |
|   |  | <u>(11,796)</u>                |   | <u>—</u>                       |  |



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

|   | <b>31.3.2004</b><br><i>HK\$'000</i><br><i>(previously stated)</i> | <b>Adjustments</b><br><i>HK\$'000</i> | <b>31.3.2004</b><br><i>HK\$'000</i><br><i>(restated)</i> |
|---|---|---------------------------------------|--|
| Deferred tax liabilities                      | <u>(510)</u>  | <u>(3,912)</u>                        | <u>(4,422)</u>   |
| Total effect on liabilities                   |   | <u>(3,912)</u>                        |  |
| Accumulated losses and total effect on equity | <u>(1,443,893)</u>  | <u>(3,912)</u>                        | <u>(1,447,805)</u>                                       |
|   |   | <u>(3,912)</u>                        |  |

#### 4. SEGMENT INFORMATION

##### 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 was discontinued in May 2004.

|  | <u>Continuing operations</u>                          |   |  |  | <b>Eliminations</b><br><i>HK\$'000</i> | <b>Consolidated</b><br><i>HK\$'000</i> |
|--|---|---|--|--|--|--|
|  | <b>Garment sourcing and export</b><br><i>HK\$'000</i> | <b>Property investment</b><br><i>HK\$'000</i> | <b>Investment in securities</b><br><i>HK\$'000</i> | <b>Loan financing</b><br><i>HK\$'000</i> |  |  |
| <b>Six months ended</b>                          |   |   |  |  |  |  |
| <b>30 September 2005</b>                         |   |   |  |  |  |  |
| <b>Turnover</b>                                  |   |   |  |  |  |  |
| External   | 243,568   | 18,268  | —  | —  | —                                      | 261,836                                |
| Inter-segment                                    | <u>—</u>  | <u>1,655</u>                                  | <u>—</u>   | <u>—</u>                                 | <u>(1,655)</u>                         | <u>—</u>                               |
|  | <u>243,568</u>  | <u>19,923</u>                                 | <u>—</u>   | <u>—</u>                                 | <u>(1,655)</u>                         | <u>261,836</u>                         |
| <b>Result</b>                                    |   |   |  |  |  |  |
| Segment result and (loss) profit from operations | <u>(24,671)</u>                                       | <u>168,993</u>                                | <u>(151,070)</u>                                   | <u>1,688</u>                             | <u>(1,864)</u>                         | <u>(6,924)</u>                         |

|  | Continuing operations       |                     |                          |                | Discontinued operation | Eliminations   | Consolidated   |
|--|-----------------------------|---------------------|--------------------------|----------------|------------------------|----------------|----------------|
|  | Garment sourcing and export | Property investment | Investment in securities | Loan financing | Bleaching and dyeing   |                |                |
|  | HK\$'000                    | HK\$'000            | HK\$'000                 | HK\$'000       | HK\$'000               | HK\$'000       | HK\$'000       |
| <b>Six months ended 30 September 2004</b>        |                             |                     |                          |                |                        |                |                |
| <b>Turnover</b>                                  |                             |                     |                          |                |                        |                |                |
| External   | 210,803                     | 37,932              | —                        | —              | 6,976                  | —              | 255,711        |
| Inter-segment                                    | —                           | 1,500               | —                        | —              | 7                      | (1,507)        | —              |
|  | <u>210,803</u>              | <u>39,432</u>       | <u>—</u>                 | <u>—</u>       | <u>6,983</u>           | <u>(1,507)</u> | <u>255,711</u> |
| <b>Result</b>                                    |                             |                     |                          |                |                        |                |                |
| Segment result and profit (loss) from operations | <u>6,277</u>                | <u>13,408</u>       | <u>29,589</u>            | <u>755</u>     | <u>(258)</u>           | <u>(649)</u>   | <u>49,122</u>  |

#### 5. (LOSS) PROFIT FROM OPERATIONS

| Six months ended 30 September |          |
|-------------------------------|----------|
| 2005                          | 2004     |
| HK\$'000                      | HK\$'000 |

(Loss) profit from operations has been arrived at after charging:

Depreciation and amortisation on:

|  |            |              |
|--|------------|--------------|
| — property, plant and equipment        | 639        | 961          |
| — permanent textile quota entitlements | —          | 761          |
|  | <u>639</u> | <u>1,722</u> |

#### 6. IMPAIRMENT LOSS ON TRADE AND OTHER RECEIVABLES

During the period, an impairment loss on trade and other receivables of HK\$33,302,000 was provided in respect of the deposits to a supplier paid by the Group as a result of the voluntary liquidation of such supplier.

#### 7. FINANCE COSTS

| Six months ended 30 September |          |
|-------------------------------|----------|
| 2005                          | 2004     |
| HK\$'000                      | HK\$'000 |

|   |              |              |
|---|--------------|--------------|
| Interest on borrowings wholly repayable within five years | <u>3,115</u> | <u>1,689</u> |
|---|--------------|--------------|

## 8. TAXATION

|   | Six months ended<br>30 September |                     |
|---|----------------------------------|---------------------|
|   | 2005                             | 2004                |
|   | <i>HK\$'000</i>                  | <i>HK\$'000</i>     |
| The charge comprises:                                     |                                  |                     |
| Current tax:  |                                  |                     |
| Hong Kong Profits Tax                                     | 711                              | 4,986               |
| Deferred tax charge (note 16)                             | <u>692</u>                       | <u>324</u>          |
| Taxation attributable to the Company and its subsidiaries | <u><u>1,403</u></u>              | <u><u>5,310</u></u> |

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 September 2004: 17.5%) of the estimated assessable profit for the period.

## 9. BASIC (LOSS) EARNINGS PER SHARE

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

|   | Six months ended<br>30 September |                 |
|---|----------------------------------|-----------------|
|   | 2005                             | 2004            |
|   | <i>HK\$'000</i>                  | <i>HK\$'000</i> |
| (Loss) earnings for the purposes of basic (loss) earnings per share attributable to equity holders of the Company | <u>(13,938)</u>                  | <u>75,826</u>   |

|  | Six months ended<br>30 September |                      |
|--|----------------------------------|----------------------|
|  | 2005                             | 2004                 |
|  | <b>Number of shares</b>          |                      |
| Number/weighted average number of shares for the purposes of basic (loss) earnings per share | <u>1,323,673,386</u>             | <u>1,124,893,809</u> |

No diluted loss per share has been presented as the Company has no potential ordinary shares outstanding during the six months ended 30 September 2005.

No diluted earnings per share had been presented because the exercise price of the Company's options were higher than the average market price per share during the six months ended 30 September 2004.

**10. DIVIDEND**

During the period, a final dividend of HK0.5 cent per share for the year ended 31 March 2005 (year ended 31 March 2004: HK0.5 cent) was paid to shareholders.

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2005 (six months ended 30 September 2004: nil).

**11. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent HK\$599,000 (six months ended 30 September 2004: HK\$1,549,000) on acquisition of property, plant and equipment. No property, plant and equipment was disposed of during the six months ended 30 September 2005. For the six months ended 30 September 2004, the Group disposed of property, plant and equipment of HK\$14,539,000, of which HK\$14,529,000 was related to disposal of subsidiaries.

**12. INVESTMENT PROPERTIES**

The Group's investment properties are held for rental purposes under operating leases. They were valued by Messrs. Knight Frank, a firm of independent professional valuers, on market value basis. The gain arising from changes in fair value of the investment properties of HK\$157,030,000 has been recognised in the income statement for the six months ended 30 September 2005 (six months ended 30 September 2004: nil).

**13. TRADE AND OTHER RECEIVABLES**

|                       | <b>30 September</b> | <b>31 March</b> |
|-----------------------|---------------------|-----------------|
|                       | <b>2005</b>         | <b>2005</b>     |
|                       | <i>HK\$'000</i>     | <i>HK\$'000</i> |
| Trade receivables     | 15,197              | 34,682          |
| Deposits to suppliers | 69,762              | 153,748         |
| Other receivables     | <u>8,882</u>        | <u>7,783</u>    |
|                       | <u>93,841</u>       | <u>196,213</u>  |

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

|              | <b>30 September</b> | <b>31 March</b> |
|--------------|---------------------|-----------------|
|              | <b>2005</b>         | <b>2005</b>     |
|              | <i>HK\$'000</i>     | <i>HK\$'000</i> |
| 0 - 60 days  | 11,800              | 28,665          |
| 61 - 90 days | 1,352               | 2,742           |
| Over 90 days | <u>2,045</u>        | <u>3,275</u>    |
|              | <u>15,197</u>       | <u>34,682</u>   |

## 14. TRADE AND OTHER PAYABLES

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

|              | <b>30 September</b> | <b>31 March</b> |
|--------------|---------------------|-----------------|
|              | <b>2005</b>         | <b>2005</b>     |
|              | <i>HK\$'000</i>     | <i>HK\$'000</i> |
| 0 - 60 days  | 21,788              | 9,507           |
| 61 - 90 days | 43                  | 14              |
| Over 90 days | <u>161</u>          | <u>337</u>      |
|              | <u>21,992</u>       | <u>9,858</u>    |

## 15. SHARE CAPITAL

|  | <b>Nominal value</b> | <b>Number of</b>        | <b>Amount</b>      |
|--|----------------------|-------------------------|--------------------|
|  | <b>per share</b>     | <b>shares</b>           | <b>HK\$'000</b>    |
|  | <i>HK\$</i>          |                         | <i>HK\$'000</i>    |
| <b>Authorised:</b>   |                      |                         |                    |
| At 1 April 2004  | 0.10                 | 30,000,000,000          | 3,000,000          |
| Reduction of authorised share capital                          | 0.10                 | <u>(20,000,000,000)</u> | <u>(2,000,000)</u> |
| At 30 September 2004, 31 March 2005 and 30 September 2005      | 0.10                 | <u>10,000,000,000</u>   | <u>1,000,000</u>   |
| <b>Issued and fully paid:</b>                                  |                      |                         |                    |
| 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 | 0.10                 | <u>441,224,462</u>      | <u>44,122</u>      |
| At 30 September 2004, 31 March 2005 and 30 September 2005      | 0.10                 | <u>1,323,673,386</u>    | <u>132,367</u>     |

## 16. DEFERRED TAXATION

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

|                                     | <b>Accelerated<br/>tax depreciation</b> | <b>Investment<br/>properties</b> | <b>Tax<br/>losses</b>  | <b>Total</b>         |
|-------------------------------------|---|----------------------------------|------------------------|----------------------|
|                                     | <i>HK\$'000</i>                         | <i>HK\$'000</i>                  | <i>HK\$'000</i>        | <i>HK\$'000</i>      |
| At 1 April 2004                     | 100                                     | 13,653                           | (9,331)                | 4,422                |
| Charge (credit) to income statement | <u>156</u>                              | <u>478</u>                       | <u>(310)</u>           | <u>324</u>           |
| At 30 September 2004                | 256                                     | 14,131                           | (9,641)                | 4,746                |
| Charge to income statement          | <u>2</u>                                | <u>8,072</u>                     | <u>693</u>             | <u>8,767</u>         |
| At 31 March 2005                    | 258                                     | 22,203                           | (8,948)                | 13,513               |
| Charge (credit) to income statement | <u>25</u>                               | <u>16,764</u>                    | <u>(16,097)</u>        | <u>692</u>           |
| At 30 September 2005                | <u><u>283</u></u>                       | <u><u>38,967</u></u>             | <u><u>(25,045)</u></u> | <u><u>14,205</u></u> |

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

At the balance sheet date, the deductible temporary differences not recognised were analysed as follows:

|                         | <b>30 September<br/>2005</b> | <b>31 March<br/>2005</b> |
|-------------------------|------------------------------|--------------------------|
|                         | <i>HK\$'000</i>              | <i>HK\$'000</i>          |
| Tax losses              | 151,767                      | 99,983                   |
| Miscellaneous allowance | <u>16,850</u>                | <u>16,850</u>            |
|                         | <u><u>168,617</u></u>        | <u><u>116,833</u></u>    |

At 30 September 2005, the Group has unused tax losses of HK\$294,881,000 (31.3.2005: HK\$151,114,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$143,114,000 (31.3.2005: HK\$51,131,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$151,767,000 (31.3.2005: HK\$99,983,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely except losses of HK\$28,481,000 (31.3.2005: HK\$28,481,000) which will be expired as follows:

|                 | <b>30 September</b> | <b>31 March</b> |
|-----------------|---------------------|-----------------|
|                 | <b>2005</b>         | <b>2005</b>     |
|                 | <i>HK\$'000</i>     | <i>HK\$'000</i> |
| Year of expiry: |                     |                 |
| 2022            | 1,821               | 1,821           |
| 2023            | 2,163               | 2,163           |
| 2024            | 11,225              | 11,225          |
| 2025            | <u>13,272</u>       | <u>13,272</u>   |
|                 | <u>28,481</u>       | <u>28,481</u>   |

## 17. RESERVES

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

- (i) the entire amount standing to the credit of the share premium account and the capital reserve account of the Company will be reduced; and
- (ii) part of the credits arising from (i) above in the sum of HK\$1,785,508,000 will be applied to offset the accumulated losses of the Company as at 31 March 2004 in full and the remaining balance of HK\$227,555,000 will be transferred to the contributed surplus account of the Company.

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

## 18. DISPOSAL OF SUBSIDIARIES

During the six months ended 30 September 2004, the Group agreed to sell the entire issued shares of Po Cheong International Enterprises Limited ("Po Cheong"), a wholly-owned subsidiary of the Company, to a wholly-owned subsidiary of Asia Alliance Holdings Limited ("Asia Alliance"), an associate of the Group, 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 period.

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**APPENDIX II****FINANCIAL INFORMATION OF THE GROUP**

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The results of the discontinued operations were as follows:

|                         | Six months ended |                 |
|-------------------------|------------------|-----------------|
|                         | 30 September     |                 |
|                         | 2005             | 2004            |
|                         | <i>HK\$'000</i>  | <i>HK\$'000</i> |
| Turnover                | —                | 6,983           |
| Cost of sales           | —                | (6,465)         |
|                         | <hr/>            | <hr/>           |
| Gross profit            | —                | 518             |
| Other operating income  | —                | 15              |
| Distribution costs      | —                | (113)           |
| Administrative expenses | —                | (678)           |
|                         | <hr/>            | <hr/>           |
| Loss from operations    | —                | (258)           |
| Finance costs           | —                | (17)            |
|                         | <hr/>            | <hr/>           |
| Loss for the period     | —                | (275)           |
|                         | <hr/> <hr/>      | <hr/> <hr/>     |



The net assets of the subsidiaries at the date of disposal were as follows:

|   | <i>HK\$'000</i>      |
|---|----------------------|
| Net assets disposed of  | 16,571               |
| Gain on disposal of subsidiaries  |                      |
| — realised  | 14,149               |
| — unrealised  | <u>7,935</u>         |
| Total consideration   | <u><u>38,655</u></u> |
| Satisfied by:   |                      |
| Cash consideration  |                      |
| — Cash received   | 50,000               |
| — Consideration repayable   | (11,120)             |
| Expenses incurred in connection with the disposal of subsidiaries                       | <u>(225)</u>         |
|   | <u><u>38,655</u></u> |
| Net cash inflow of cash and cash equivalent 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  | <u>(423)</u>         |
|   | <u><u>49,352</u></u> |

#### 19. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

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

|                                       | <b>Six months ended</b> |                 |
|---------------------------------------|-------------------------|-----------------|
|                                       | <b>30 September</b>     |                 |
|                                       | <b>2005</b>             | <b>2004</b>     |
|                                       | <i>HK\$'000</i>         | <i>HK\$'000</i> |
| Sales of fabric                       | —                       | 683             |
| Sales of garments                     | 5,180                   | 503             |
| Bleaching and dyeing charges received | —                       | 295             |
| Rental income                         | 37                      | —               |
| Purchases of garments                 | <u>114,962</u>          | <u>104,777</u>  |

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

|                             | <b>30 September<br/>2005</b> | <b>31 March<br/>2005</b> |
|-----------------------------|------------------------------|--------------------------|
|                             | <i>HK\$'000</i>              | <i>HK\$'000</i>          |
| Trade receivables           | 17                           | 11,923                   |
| Deposits paid               | <u>11,995</u>                | <u>83,553</u>            |
| Trade and other receivables | <u><u>12,012</u></u>         | <u><u>95,476</u></u>     |

- (b) In May 2004, the Group disposed of the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000, subject to adjustment, as described in the sale and purchase agreement dated 5 March 2004. The consideration has been subsequently adjusted downwards to HK\$38,880,000 on 16 June 2005. Details of the transaction are set out in note 18.
- (c) On 20 September 2004, Easyknit Properties Holdings Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Messrs. Koon Wing Yee and Tsang Yiu Kai, the directors of the Company, to acquire the entire issued shares of Easyknit Properties Management Limited ("EPML") from them at a cash consideration of approximately HK\$15,000.
- (d) Prior to the acquisition of the entire issued shares of EPML, the Group provided administrative services to EPML in which Messrs. Koon Wing Yee and Tsang Yiu Kai, both are directors of the Company, have beneficial interests and received service income of HK\$117,000 from that company for the six months 30 September 2004 (six months ended 30 September 2005: nil). The service income was determined based on mutually agreed terms.
- (e) During the six months ended 30 September 2005, the Group provided administrative services to Asia Alliance, a company in which Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu, all are directors of the Company, have beneficial interests, and received service income of HK\$120,000 from Asia Alliance (six months ended 30 September 2004: HK\$121,000). The service income was determined based on mutually agreed terms.
- (f) The remuneration of directors and other members of key management during the period amounted to HK\$3,104,000 (six months ended 30 September 2004: HK\$4,007,000).

## 20. CONTINGENT LIABILITIES

|                                | <b>30 September<br/>2005</b> | <b>31 March<br/>2005</b> |
|--------------------------------|------------------------------|--------------------------|
|                                | <i>HK\$'000</i>              | <i>HK\$'000</i>          |
| Bills discounted with recourse | <u>—</u>                     | <u>3,441</u>             |

## 21. POST BALANCE SHEET EVENT

On 17 October 2005, the Group made an application for 34,100,000 excess rights shares of Capital Estate Limited, a company listed on the Stock Exchange, and was allotted 33,286,000 rights shares of Capital Estate Limited at HK\$1 each, representing approximately 12.67% of the issued share capital of Capital Estate Limited as enlarged by the rights issue of Capital Estate Limited on the basis of four rights shares for every share held. Details of this transaction are set out, inter alia, in the circular of the Company dated 14 November 2005.

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The following is a summary of the audited consolidated income statement of the Group for the three years ended 31 March 2005 together with the audited consolidated balance sheet of the Group as at 31 March 2004 and 2005 respectively. The information upon which the summary is based has been extracted from the annual reports of the Company for the relevant years.

## CONSOLIDATED INCOME STATEMENT

|  | NOTES | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000<br>(Restated) |
|--|-------|------------------|------------------|--------------------------------|
| Turnover   | 4     | 590,001          | 706,044          | 687,652                        |
| Cost of sales  |       | <u>(461,181)</u> | <u>(567,958)</u> | <u>(540,668)</u>               |
| Gross profit   |       | 128,820          | 138,086          | 146,984                        |
| Other operating income   |       | 5,127            | 4,392            | 3,071                          |
| Distribution costs   |       | (25,088)         | (33,330)         | (37,797)                       |
| Administrative expenses  |       | (55,345)         | (74,151)         | (61,025)                       |
| Reversal of deficit arising on revaluation of investment properties                |       | 140,690          | 42,500           | 15,815                         |
| Unrealised gain on other investments   |       | 158,579          | —                | —                              |
| Impairment loss recognised in respect of property, plant and equipment             |       | —                | (9,911)          | —                              |
| Impairment loss of goodwill on acquisition of additional interests in subsidiaries |       | —                | (3,270)          | (364)                          |
| Loss on disposal of investment properties  |       | —                | (1,644)          | —                              |
| Impairment loss of goodwill on acquisition of a subsidiary/subsidiaries            |       | <u>—</u>         | <u>(104)</u>     | <u>(7,194)</u>                 |
| Profit from operations   | 7     | 352,783          | 62,568           | 59,490                         |
| Gain on disposal of subsidiaries/a subsidiary                                      | 8     | 14,149           | 63,950           | —                              |
| Gain on deemed disposal of discontinued operations                                 | 6     | —                | 19,317           | —                              |
| Gain on partial disposal of a subsidiary   | 9     | —                | 886              | —                              |
| Unrealised loss on investment in 21CN CyberNet Corporation Limited                 |       | —                | —                | (11,000)                       |
| Loss on disposal of investment in 21CN CyberNet Corporation Limited                |       | —                | —                | (50,456)                       |
| Income on release of guarantee   |       | —                | —                | 5,000                          |
| Finance costs  | 10    | (3,566)          | (7,855)          | (10,128)                       |
| Share of results of associates   |       | 2,876            | (3,919)          | —                              |
| Share of results of a jointly controlled entity                                    |       | <u>—</u>         | <u>(72)</u>      | <u>—</u>                       |

**APPENDIX II****FINANCIAL INFORMATION OF THE GROUP**

|   | <i>NOTES</i> | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i><br><i>(Restated)</i> |
|---|--------------|--------------------------------|--------------------------------|---|
| Profit (loss) before taxation           |              | 366,242                        | 134,875                        | (7,094)   |
| Taxation                                | 12           | <u>(9,889)</u>                 | <u>(2,459)</u>                 | <u>(21,044)</u>                                     |
| Profit (loss) before minority interests |              | 356,353                        | 132,416                        | (28,138)  |
| Minority interests                      |              | <u>—</u>                       | <u>8,414</u>                   | <u>3,267</u>  |
| Net profit (loss) for the year          |              | <u><u>356,353</u></u>          | <u><u>140,830</u></u>          | <u><u>(24,871)</u></u>                              |
| Proposed dividend                       | 13           | <u><u>6,618</u></u>            | <u><u>6,618</u></u>            | <u><u>—</u></u>                                     |
| Earnings (loss) per share               | 14           |                                |                                |   |
| Basic                                   |              | <u><u>HK\$0.293</u></u>        | <u><u>HK\$0.166</u></u>        | <u><u>HK\$(0.041)</u></u>                           |
| Diluted                                 |              | <u><u>HK\$0.291</u></u>        | <u><u>N/A</u></u>              | <u><u>N/A</u></u>                                   |

## CONSOLIDATED BALANCE SHEET

At 31 March 2005

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

**APPENDIX II****FINANCIAL INFORMATION OF THE GROUP**

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

**APPENDIX II****FINANCIAL INFORMATION OF THE GROUP****BALANCE SHEET***At 31 March 2005*

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2005

|  | Share<br>capital<br><i>HK\$'000</i> | Share<br>premium<br><i>HK\$'000</i> | Capital<br>reserve<br><i>HK\$'000</i><br><i>(Note 32)</i> | Special<br>reserve<br><i>HK\$'000</i><br><i>(Note 32)</i> | Contributed<br>surplus<br><i>HK\$'000</i><br><i>(Note 32)</i> | Accumulated<br>(losses)<br>profits<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|-------------------------------------|-------------------------------------|---|---|---|---|--------------------------|
| At 1 April 2003  | 88,245                              | 1,117,131                           | 895,932   | 9,800   | —   | (1,584,723)   | 526,385                  |
| Net profit for the year  | —                                   | —                                   | —   | —   | —   | 140,830   | 140,830                  |
| At 31 March 2004   | 88,245                              | 1,117,131                           | 895,932   | 9,800   | —   | (1,443,893)   | 667,215                  |
| Reductions of share<br>premium and capital<br>reserve and offsetting<br>accumulated losses<br><i>(see note 32)</i> | —                                   | (1,117,131)                         | (895,932)   | —   | 227,555   | 1,785,508   | —                        |
| Rights issue of shares at<br>a price of HK\$0.11<br>per rights share   | 44,122                              | 4,412                               | —   | —   | —   | —   | 48,534                   |
| Net profit for the year  | —                                   | —                                   | —   | —   | —   | 356,353   | 356,353                  |
| 2004 final dividend paid   | —                                   | —                                   | —   | —   | (6,618)   | —   | (6,618)                  |
| At 31 March 2005   | <u>132,367</u>                      | <u>4,412</u>                        | <u>—</u>  | <u>9,800</u>  | <u>220,937</u>  | <u>697,968</u>  | <u>1,065,484</u>         |



## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| Cash flows from operating activities   |                  |                  |
| Profit before taxation   | 366,242          | 134,875          |
| Adjustments for:   |                  |                  |
| Share of results of associates   | (2,876)          | 3,919            |
| Share of results of a jointly controlled entity                                    | —                | 72               |
| Interest income  | (2,118)          | (3,172)          |
| Interest expense   | 3,559            | 7,849            |
| Finance charges on obligations under finance leases                                | 7                | 6                |
| Depreciation   | 1,619            | 7,682            |
| Allowance for inventories  | 3,571            | —                |
| Allowance for doubtful debts   | 4,215            | 1,094            |
| Amortisation of permanent textile quota entitlements                               | 884              | 1,305            |
| Impairment loss of goodwill on acquisition of a subsidiary                         | —                | 104              |
| Impairment loss of goodwill on acquisition of additional interests in subsidiaries | —                | 3,270            |
| Reversal of deficit arising on revaluation of investment properties                | (140,690)        | (42,500)         |
| Unrealised gain on other investments   | (158,579)        | —                |
| Impairment loss recognised in respect of property, plant and equipment             | —                | 9,911            |
| (Gain) loss on disposal of property, plant and equipment                           | (143)            | 149              |
| Loss on waiver of amount due from a minority shareholder of a subsidiary           | —                | 117              |
| Loss on waiver of loan to a jointly controlled entity                              | —                | 7                |
| Loss on disposal of investment properties  | —                | 1,644            |
| Gain on partial disposal of a subsidiary   | —                | (886)            |
| Gain on deemed disposal of discontinued operations                                 | —                | (19,317)         |
| Gain on disposal of subsidiaries/a subsidiary                                      | (14,149)         | (63,950)         |
| Gain on disposal of permanent textile quota entitlements                           | (2)              | (1)              |
| (Gain) loss on disposal of other investments                                       | (919)            | 2,328            |
| Operating profit before movements in working capital                               | 60,621           | 44,506           |
| Decrease in properties held for sale   | 35,062           | 32,814           |
| (Increase) decrease in inventories   | (649)            | 2,133            |
| Decrease (increase) in trade and other receivables                                 | 6,312            | (34,354)         |
| (Increase) decrease in bills receivable  | (28,524)         | 1,581            |
| Decrease in trade and other payables   | (7,915)          | (14,029)         |
| Increase in bills payable  | 2,697            | 704              |
| Cash from operations   | 67,604           | 33,355           |
| Interest paid  | (3,559)          | (7,849)          |
| Finance charges on obligations under finance leases paid                           | (7)              | (6)              |
| Hong Kong Profits Tax paid   | (1,601)          | (6,703)          |
| Hong Kong Profits Tax refund   | 1,719            | 384              |
| Net cash from operating activities   | 64,156           | 19,181           |

**APPENDIX II**
**FINANCIAL INFORMATION OF THE GROUP**

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

**NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31 March 2005*

**1. GENERAL**

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

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

**2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of consolidation**

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

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

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

**Goodwill**

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

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

**Investments in subsidiaries**

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

**Interests in associates**

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

**Jointly controlled entities**

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

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

**Revenue recognition**

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

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

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

Other service income is recognised when services are rendered.

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

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

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

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

**Impairment**

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

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

**Property, plant and equipment**

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

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

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

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

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

**Leases**

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

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

**Investment properties**

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

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

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

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

**Textile quota entitlements**

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

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

**Club debenture**

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

**Investments in securities**

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

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

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

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

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

**Properties held for sale**

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

**Inventories**

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

**Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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

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

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

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

**Foreign currencies**

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

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

**Retirement benefits costs**

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

**4. TURNOVER**

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

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



## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

**Business segments**

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

Segment information about these businesses is presented below:

**Year 2005**

## (i) Income statement

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

*Notes:*

- (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.

**APPENDIX II**
**FINANCIAL INFORMATION OF THE GROUP**

## (ii) Balance sheet

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

## (iii) Other information

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

## Year 2004

## (i) Income statement

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

## Notes:

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

**APPENDIX II**
**FINANCIAL INFORMATION OF THE GROUP**

## (ii) Balance sheet

|                                   | Continuing operations                   |                                 |                                      |                            | Discontinued operations          | Consolidated<br>HK\$'000 |
|-----------------------------------|---|---------------------------------|--------------------------------------|----------------------------|----------------------------------|--------------------------|
|                                   | Garment sourcing and export<br>HK\$'000 | Property investment<br>HK\$'000 | Investment in securities<br>HK\$'000 | Loan financing<br>HK\$'000 | Bleaching and dyeing<br>HK\$'000 |                          |
| <b>ASSETS</b>                     |   |                                 |                                      |                            |                                  |                          |
| Segment assets                    | 226,008                                 | 540,814                         | 79,000                               | 43,465                     | 37,225                           | 926,512                  |
| Interests in associates           |   |                                 |                                      |                            |                                  | 20,788                   |
| Unallocated corporate assets      |   |                                 |                                      |                            |                                  | 93,832                   |
| Consolidated total assets         |   |                                 |                                      |                            |                                  | <u>1,041,132</u>         |
| <b>LIABILITIES</b>                |   |                                 |                                      |                            |                                  |                          |
| Segment liabilities               | 28,348                                  | 15,433                          | —                                    | 27                         | 12,323                           | 56,131                   |
| Unallocated corporate liabilities |   |                                 |                                      |                            |                                  | 317,786                  |
| Consolidated total liabilities    |   |                                 |                                      |                            |                                  | <u>373,917</u>           |

## (iii) Other information

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

**Geographical segments**

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

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

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:

|           | <b>Carrying amount of<br/>segment assets</b> |                  | <b>Additions to property,<br/>plant and equipment</b> |                 |
|-----------|--|------------------|---|-----------------|
|           | <b>2005</b>                                  | <b>2004</b>      | <b>2005</b>   | <b>2004</b>     |
|           | <i>HK\$'000</i>                              | <i>HK\$'000</i>  | <i>HK\$'000</i>                                       | <i>HK\$'000</i> |
| Hong Kong | 1,313,793                                    | 984,484          | 1,563   | 12,270          |
| PRC       | —  | 38,772           | 17  | 5,105           |
| USA       | <u>12,253</u>                                | <u>15,409</u>    | <u>9</u>  | <u>90</u>       |
|           | <u>1,326,046</u>                             | <u>1,038,665</u> | <u>1,589</u>  | <u>17,465</u>   |

**6. DISCONTINUED OPERATIONS**

- (a) Asia Alliance Holdings Limited ("Asia Alliance") is incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange. It was a subsidiary of the Company (see also note 9). In November 2003 and December 2003, Asia Alliance had two placements of new shares of which the Company was not a subscriber. The Group's equity interest in Asia Alliance was diluted from approximately 51.73% immediately before Asia Alliance's first placement of shares to approximately 43.11% immediately after that and further to approximately 35.93% immediately after Asia Alliance's second placement of shares. Asia Alliance ceased to be a subsidiary of the Company and became an associate (see note 20). The Group's business relating to telecommunications services and related investments was since discontinued.

The gain on the deemed disposal amounted to HK\$19,317,000, which was credited to the consolidated income statement for the year ended 31 March 2004.

The results of the discontinued operations were as follows:

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

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

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

|                                       | <b>2005</b>     | <b>2004</b>           |
|---------------------------------------|-----------------|-----------------------|
|                                       | <i>HK\$'000</i> | <i>HK\$'000</i>       |
| Net cash used in operating activities | —               | (13,894)              |
| Net cash used in investing activities | —               | (12,083)              |
| Net cash from financing activities    | <u>—</u>        | <u>22,374</u>         |
| Net cash outflow                      | <u><u>—</u></u> | <u><u>(3,603)</u></u> |

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

The results of the discontinued operations were as follows:

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

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

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

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

## 7. PROFIT FROM OPERATIONS

|  | 2005<br><i>HK\$'000</i> | 2004<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit from operations has been arrived at after charging:               |                         |                         |
| Directors' remuneration ( <i>note 11(a)</i> )                            | 7,383                   | 7,208                   |
| Other staff costs, including retirement benefits costs                   | <u>20,415</u>           | <u>32,094</u>           |
| Total staff costs  | <u>27,798</u>           | <u>39,302</u>           |
| Allowance for doubtful debts   | 4,215                   | 1,094                   |
| Allowance for inventories  | 3,571                   | —                       |
| Auditors' remuneration:  |                         |                         |
| — current year   | 647                     | 876                     |
| — underprovision in prior years  | 78                      | 56                      |
| Cost of inventories consumed   | 420,760                 | 523,254                 |
| Cost of properties sold  | 35,062                  | 32,814                  |
| Depreciation and amortisation on:  |                         |                         |
| — owned assets   | 1,599                   | 7,662                   |
| — assets held under finance leases                                       | 20                      | 20                      |
| — permanent textile quota entitlements ( <i>note</i> )                   | 884                     | 1,305                   |
| Loss on disposal of other investments                                    | —                       | 2,328                   |
| Loss on disposal of property, plant and equipment                        | —                       | 149                     |
| Loss on waiver of amount due from a minority shareholder of a subsidiary | —                       | 117                     |
| Loss on waiver of loan to a jointly controlled entity                    | —                       | 7                       |
| Purchased temporary textile quota entitlements utilised                  | 516                     | 7,679                   |
| and after crediting:   |                         |                         |
| Gain on disposal of property, plant and equipment                        | 143                     | —                       |
| Gain on disposal of other investments                                    | 919                     | —                       |
| Gain on disposal of permanent textile quota entitlements                 | 2                       | 1                       |
| Interest income  | <u>2,118</u>            | <u>3,172</u>            |

*Note:* The amount is included in distribution costs.

## 8. GAIN ON DISPOSAL OF SUBSIDIARIES/A SUBSIDIARY

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

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



**9. GAIN ON PARTIAL DISPOSAL OF A SUBSIDIARY**

During the period from June to July 2003 when Asia Alliance was a subsidiary of the Company, the Group disposed of an aggregate of 39,328,000 shares of HK\$0.01 each of Asia Alliance, representing approximately 3.57% of the then issued capital of Asia Alliance. The gain on the partial disposal amounted to HK\$886,000, which was credited to the consolidated income statement for the year ended 31 March 2004.

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

**10. FINANCE COSTS**

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

**11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS****(a) Information regarding directors' emoluments**

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

The emoluments of the directors fall within the following bands:

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

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

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

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

The emoluments of these employees fall within the following bands:

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

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

## 12. TAXATION

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

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

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

**13. PROPOSED DIVIDEND**

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

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

**14. EARNINGS PER SHARE**

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

|   | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|
| Earnings for the purposes of calculating basic and diluted earnings per share | <u>356,353</u>                 | <u>140,830</u>                 |

|   | <b>2005</b>          | <b>2004</b>        |
|---|----------------------|--------------------|
| <b>Number of shares</b>   |                      |                    |
| Weighted average number of shares for the purposes of calculating basic earnings per share  | 1,218,081,240        | <u>847,856,926</u> |
| Effect of dilutive potential shares relating to outstanding share options                   | <u>5,256,920</u>     |                    |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | <u>1,223,338,160</u> |                    |

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

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

## 15. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

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

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

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

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

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

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

## 16. PROPERTY, PLANT AND EQUIPMENT

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

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

The valuation of certain leasehold land and buildings was carried out by Jones Lang Wootton Ltd., a firm of independent professional property valuers, at 31 October 1994 on an open market value vacant possession basis. Had all leasehold land and buildings been carried at cost less accumulated depreciation, their carrying value would have been stated at HK\$27,320,000 (2004: HK\$28,003,000).

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

## 17. INVESTMENT PROPERTIES

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

The investment properties are held for rental purposes under operating leases. They were revalued at 31 March 2005 by Messrs. Knight Frank, a firm of independent professional property valuers, on market value basis. This revaluation gives rise to a revaluation surplus of HK\$140,690,000 which was credited to the consolidated income statement to reverse deficit previously charged.

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

|                    | <b>THE GROUP</b>      |                       |
|--------------------|-----------------------|-----------------------|
|                    | <b>2005</b>           | <b>2004</b>           |
|                    | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
| Long leases        | 268,200               | 174,000               |
| Medium-term leases | <u>351,770</u>        | <u>305,280</u>        |
|                    | <u><u>619,970</u></u> | <u><u>479,280</u></u> |

## 18. PERMANENT TEXTILE QUOTA ENTITLEMENTS

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

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

## 19. INTERESTS IN SUBSIDIARIES

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

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. An aggregate sum of HK\$59,754,000 (2004: HK\$66,663,000) bear interest at the prevailing market rates and the remaining amounts are non-interest bearing. In the opinion of the directors, repayment of the amounts due from subsidiaries will not be demanded by the Company within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current assets in the balance sheet.



The amounts due to subsidiaries are unsecured and repayable on demand. An amount of HK\$121,841,000 (2004: HK\$73,163,000) bears interest at the prevailing market rates and the remaining amounts are non-interest bearing.

Particulars of the Company's principal subsidiaries at 31 March 2005 are set out in note 43.

## 20. INTERESTS IN ASSOCIATES

|                     | <b>THE GROUP</b> |                 |
|---------------------|------------------|-----------------|
|                     | <b>2005</b>      | <b>2004</b>     |
|                     | <i>HK\$'000</i>  | <i>HK\$'000</i> |
| Share of net assets | <u>15,729</u>    | <u>20,788</u>   |

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

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

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

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

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

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

#### 21. PROPERTIES HELD FOR SALE

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

#### 22. OTHER INVESTMENTS

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

#### 23. INVENTORIES

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

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

#### 24. CONSIDERATION RECEIVABLE ON DISPOSAL OF A SUBSIDIARY

The amount represented the consideration receivable on disposal of the entire issued share capital of Touch Profits Limited, the principal assets of which at the date of disposal were shares of 21CN.

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

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

On 11 February 2004, the Company served Fairworld and Mr. T. Chen a letter proposing that the sale of the 2004 Sale Shares be effected by way of the sale of the entire issued share capital of US\$1.00 of Touch Profits Limited instead with other terms of the 2004 Sale Shares Agreement remained unchanged. Both Fairworld and Mr. T. Chen accepted the proposal. As at 31 March 2004, completion of the 2004 Sale Shares Agreement has taken place and the Group did not have any interest in the issued share capital of 21CN. Gain on disposal of Touch Profits Limited amounting to HK\$63,950,000 was recognised in the consolidated income statement for the year ended 31 March 2004 (see note 8).

The repayment terms of the balance is as follows:

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

## 25. TRADE AND OTHER RECEIVABLES

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

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

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

**26. LOANS RECEIVABLE**

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

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

**27. TRADE AND OTHER PAYABLES**

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

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

## 28. OBLIGATIONS UNDER FINANCE LEASES

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

## 29. SECURED BORROWINGS

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

## 30. SHARE CAPITAL

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

*Notes:*

- (a) As announced by the Company on 20 May 2004, the Company proposed a reduction in its authorised share capital from HK\$3,000,000,000 to HK\$1,000,000,000 by the diminution of 20,000,000,000 authorised but unissued shares of HK\$0.10 each. Details of this are set out, inter alia, in the circular of the Company dated 29 June 2004 issued by the Company. A resolution approving the proposed reduction was passed at the special general meeting of the Company held on 28 July 2004.
- (b) Rights issue of 441,224,462 shares of HK\$0.10 each at a subscription price of HK\$0.11 per rights share were allotted to the shareholders of the Company in proportion of one rights share for every two existing shares then held. The Company raised HK\$47,500,000 (net of expenses), out of which HK\$40,000,000 was used to repay the Group's bank borrowings and the balance was used for general working capital purpose.

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

## 31. SHARE OPTION SCHEME

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

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

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and other share option schemes of the Company must not exceed 10% of the shares in issue on the Adoption Date. The overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Scheme and other share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

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

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

The offer of the grant of options must be accepted within 30 days from the date of offer with the payment of a nominal consideration of HK\$1. The exercise period of the share options is determined by the directors of the Company and shall not expire later than ten years from the date of offer. The subscription price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer. Unless otherwise determined by the directors of the Company, there is no minimum period for which an option must be held before it can be exercised.

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

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



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

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

No share options were exercised or cancelled during both years.

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

*Notes:*

- (1) The share options have no vesting period and are exercisable from the date of grant.
  - (2) The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the share capital of the Company.
  - (3) The share price at grant date of options shown in the above tables represents the closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange on the trading day immediately preceding the date of offer of the options.
- \* The number of share options and the corresponding exercise price have been adjusted as a result of the rights issue of shares of the Company in June 2004.

## 32. RESERVES

|   | Share<br>premium<br><i>HK\$'000</i> | Capital<br>reserve<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Accumulated<br>(losses)<br>profits<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-------------------------------------|---------------------------------------|---|---|--------------------------|
| <b>THE COMPANY</b>  |                                     |                                       |   |   |                          |
| At 1 April 2003   | 1,117,131                           | 895,932                               | 48,369                                    | (1,799,306)   | 262,126                  |
| Net profit for the year   | <u>—</u>                            | <u>—</u>                              | <u>—</u>                                  | <u>13,798</u>   | <u>13,798</u>            |
| At 31 March 2004  | 1,117,131                           | 895,932                               | 48,369                                    | (1,785,508)   | 275,924                  |
| Reductions of share premium<br>and capital reserve and offsetting<br>accumulated losses ( <i>Note</i> ) | (1,117,131)                         | (895,932)                             | 227,555                                   | 1,785,508   | —                        |
| Rights issue of shares at a price<br>of HK\$0.11 per rights share                                       | 4,412                               | —                                     | —   | —   | 4,412                    |
| Net profit for the year   | —                                   | —                                     | —   | 627,880   | 627,880                  |
| 2004 final dividend paid  | <u>—</u>                            | <u>—</u>                              | <u>(6,618)</u>                            | <u>—</u>  | <u>(6,618)</u>           |
| At 31 March 2005  | <u>4,412</u>                        | <u>—</u>                              | <u>269,306</u>                            | <u>627,880</u>  | <u>901,598</u>           |

*Note:*

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

- (i) the entire amount standing to the credit of the share premium account and the capital reserve account of the Company will be reduced; and
- (ii) part of the credits arising from (i) above in the sum of HK\$1,785,508,000 will be applied to offset the accumulated losses of the Company at 31 March 2004 in full and the remaining balance of HK\$227,555,000 will be transferred to the contributed surplus account of the Company.

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

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

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

The contributed surplus of the Company represents the sum of (i) the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company under the group reorganisation in 1995, and (ii) the credit arising from the reductions of certain reserves of the Company in August 2004 as described above.

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

Under the laws in Bermuda, the contributed surplus account of a company is also available for distribution. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

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

|                     | <i>HK\$'000</i> |
|---------------------|-----------------|
| Contributed surplus | 269,306         |
| Accumulated profits | <u>627,880</u>  |
|                     | <u>897,186</u>  |

The Company had no distributable reserve at 31 March 2004.

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

## 33. DEFERRED TAXATION

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

|                                       | Accelerated tax<br>depreciation | THE GROUP<br>Tax<br>losses | Total           |
|---------------------------------------|---------------------------------|----------------------------|-----------------|
|                                       | <i>HK\$'000</i>                 | <i>HK\$'000</i>            | <i>HK\$'000</i> |
| At 1 April 2003                       | 1,912                           | (1,687)                    | 225             |
| Charge (credit) to income statement   | 2,375                           | (2,111)                    | 264             |
| Effect of change in tax rate          |                                 |                            |                 |
| — charge (credit) to income statement | <u>179</u>                      | <u>(158)</u>               | <u>21</u>       |
| At 31 March 2004                      | 4,466                           | (3,956)                    | 510             |
| Charge (credit) to income statement   | <u>5,487</u>                    | <u>(4,280)</u>             | <u>1,207</u>    |
| At 31 March 2005                      | <u>9,953</u>                    | <u>(8,236)</u>             | <u>1,717</u>    |

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

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

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

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

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

Other deductible temporary differences of HK\$17,076,000 (2004: HK\$45,825,000) have not been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At 31 March 2005, the Company has unused tax losses of HK\$7,835,000 (2004: HK\$3,934,000) available for offset against future profit. No deferred tax asset has been recognised due to the unpredictability of future profits streams.

## 34. ACQUISITION OF A SUBSIDIARY

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

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

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

The subsidiaries acquired during the years ended 31 March 2005 and 2004 did not have any significant impact on the results and cash flows of the Group.

## 35. DISPOSAL OF SUBSIDIARIES/A SUBSIDIARY

During the year ended 31 March 2005, the Group agreed to sell the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000, subject to adjustment, as described in the sale and purchase agreement dated 5 March 2004. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The total consideration shall be satisfied in cash, of which HK\$50,000,000 was received on 13 May 2004 and the remaining balance of HK\$15,000,000 shall be received after finalisation of the adjustment (as referred to in the sale and purchase agreement dated 5 March 2004). The adjustment was finalised on 16 June 2005 (see note 42) and the revised consideration was determined to be HK\$38,880,000 and accordingly, an amount of HK\$11,120,000 was recognised as consideration repayable in the consolidated balance sheet at 31 March 2005.

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

|   | 2005<br><i>HK\$'000</i> | 2004<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Net assets disposed of  |                         |                         |
| Property, plant and equipment   | 14,529                  | —                       |
| Inventories   | 3,010                   | —                       |
| Other investments   | —                       | 20,000                  |
| Trade and other receivables   | 19,973                  | —                       |
| Bank balances and cash  | 423                     | —                       |
| Trade and other payables  | (10,752)                | —                       |
| Bills payable   | (1,837)                 | —                       |
| Bank loans  | (8,775)                 | —                       |
|   | <u>16,571</u>           | <u>20,000</u>           |
| Gain on disposal of subsidiaries/a subsidiary   |                         |                         |
| — realised  | 14,149                  | 63,950                  |
| — unrealised  | 7,935                   | —                       |
|   | <u>38,655</u>           | <u>83,950</u>           |
| Total consideration   | <u>38,655</u>           | <u>83,950</u>           |
| Satisfied by:   |                         |                         |
| Cash consideration  |                         |                         |
| — Cash received   | 50,000                  | 5,000                   |
| — Consideration (repayable) receivable  | (11,120)                | 79,000                  |
| Expenses incurred in connection with the disposal of subsidiaries/a subsidiary                        | (225)                   | (50)                    |
|   | <u>38,655</u>           | <u>83,950</u>           |
| Net cash inflow of cash and cash equivalents in respect of the disposal of subsidiaries/a subsidiary: |                         |                         |
| Cash received   | 50,000                  | 5,000                   |
| Expenses incurred in connection with the disposal of subsidiaries/a subsidiary                        | (225)                   | (50)                    |
| Bank balances and cash disposed of  | (423)                   | —                       |
|   | <u>49,352</u>           | <u>4,950</u>            |

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

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

## 36. DEEMED DISPOSAL OF A SUBSIDIARY

|   | 2005            | 2004            |
|---|-----------------|-----------------|
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net liabilities released:   |                 |                 |
| Property, plant and equipment   | —               | 1,193           |
| Interests in associates   | —               | 20              |
| Inventories   | —               | 282             |
| Trade and other receivables   | —               | 4,440           |
| Bank balances and cash  | —               | 17,822          |
| Secured other loan  | —               | (4,000)         |
| Trade and other payables  | —               | (3,881)         |
| Loan from a related company   | —               | (21,270)        |
| Minority interests  | —               | (15,935)        |
|   | <u>—</u>        | <u>(21,329)</u> |
| Gain on deemed disposal of a subsidiary   | —               | 19,317          |
|   | <u>—</u>        | <u>(2,012)</u>  |
| Represented by:   |                 |                 |
| Interests in associates - share of net liabilities  | —               | (2,012)         |
|   | <u>—</u>        | <u>(17,822)</u> |
| Net cash outflow of cash and cash equivalents in connection with the deemed disposal of a subsidiary: |                 |                 |
| Bank balances and cash disposal of  | —               | (17,822)        |
|   | <u>—</u>        | <u>(17,822)</u> |

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



**37. PLEDGE OF ASSETS**

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

**38. CONTINGENT LIABILITIES**

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

**39. CAPITAL COMMITMENTS**

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

**40. OPERATING LEASE ARRANGEMENTS****The Group as lessee**

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

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

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

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

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

#### The Group as lessor

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

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

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

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

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

#### 41. RETIREMENT BENEFITS SCHEMES

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

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

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

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

|  | <b>THE GROUP</b> |                 |
|--|------------------|-----------------|
|  | <b>2005</b>      | <b>2004</b>     |
|  | <i>HK\$'000</i>  | <i>HK\$'000</i> |
| Gross employers' contributions   | 811              | 835             |
| Less: Forfeited contributions utilised to offset employers' contributions for the year | <u>—</u>         | <u>(61)</u>     |
| Net employers' contributions charged to the consolidated income statement              | <u>811</u>       | <u>774</u>      |

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

#### 42. POST BALANCE SHEET EVENTS

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

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

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

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

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

**APPENDIX II**
**FINANCIAL INFORMATION OF THE GROUP**

| 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 |   |
| Mark Profit Development Limited  | Hong Kong   | Ordinary HK\$2                                    | —   | 100%       | Property holding and property development |
| Mary Mac Apparel Inc.            | USA   | Common stock US\$200,000                          | —   | 100%       | Garment distribution                      |
| Perfect Luck Development Limited | Hong Kong   | Ordinary HK\$2                                    | —   | 100%       | Property holding                          |
| Planetic International Limited   | Hong Kong   | Ordinary HK\$2                                    | —   | 100%       | Finance company                           |
| Victor Investment Limited        | Hong Kong   | Ordinary HK\$1,001                                | —   | 100%       | Property holding                          |
| Wellmake Investments Limited     | Hong Kong   | Ordinary HK\$9,998 (Non-voting deferred HK\$2) *  | —   | 100%       | Property holding                          |

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

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

None of the subsidiaries had issued any debt securities at 31 March 2005.

## FINANCIAL SUMMARY

## RESULTS

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

## ASSETS AND LIABILITIES

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

## SUMMARY OF PROPERTIES

As at 31 March 2005

## A. INVESTMENT PROPERTIES

|    | <b>Location</b>  | <b>Purpose</b>            | <b>Approximate<br/>gross floor/<br/>saleable area<br/>(sq. ft.)</b> | <b>Lease term</b> |
|----|--|---------------------------|---|-------------------|
| 1. | Easy Tower<br>No. 609 Tai Nan West Street,<br>Cheung Sha Wan, Kowloon  | Industrial/<br>commercial | 74,458  | Medium            |
| 2. | Shops 1, 2, 3 on Ground Floor<br>together with showcase on<br>Ground Floor, First Floor<br>and Second Floor of Fa Yuen Plaza,<br>No. 19 Fa Yuen Street,<br>Mong Kok, Kowloon | Commercial                | 13,544  | Medium            |
| 3. | 6th Floor, Nos. 650-652<br>Castle Peak Road, and<br>No. 18A Wing Hong Street,<br>Kowloon   | Industrial                | 8,514   | Medium            |
| 4. | 2nd Floor, Nos. 790, 792 and 794<br>Cheung Sha Wan Road,<br>Kowloon  | Industrial                | 2,997   | Medium            |
| 5. | Shop 19 on Ground Floor,<br>The Annex Land Building of<br>Excelsior Plaza, Nos. 24-26<br>East Point Road, Causeway Bay,<br>Hong Kong   | Commercial                | 278   | Long              |
| 6. | Shop 20 on Ground Floor<br>and Shop 20 on First Floor,<br>The Annex Land Building of<br>Excelsior Plaza, Nos. 24-26<br>East Point Road, Causeway Bay,<br>Hong Kong           | Commercial                | 1,479   | Long              |
| 7. | Ground Floor, No. 50 Yun Ping<br>Road, Causeway Bay, Hong Kong   | Commercial                | 900   | Long              |

|    | <b>Location</b>   | <b>Purpose</b> | <b>Approximate<br/>gross floor/<br/>saleable area<br/>(sq. ft.)</b> | <b>Lease term</b> |
|----|---|----------------|---|-------------------|
| 8. | Ground Floor and Cockloft<br>No. 31 Granville Road,<br>Tsim Sha Tsui, Kowloon   | Commercial     | 2,002   | Medium            |
| 9. | Shop on Ground Floor together with<br>open yard at rear thereof and the<br>exterior walls of the said shop and<br>yard, No. 8 Yue Man Square,<br>Kwun Tong, Kowloon | Commercial     | 1,220   | Medium            |

**B. PROPERTIES HELD FOR SALE**

| <b>Location</b>   | <b>Purpose</b> | <b>Approximate<br/>gross floor area<br/>(sq. ft.)</b> | <b>Percentage<br/>of interest</b> | <b>Lease term</b> |
|---|----------------|---|-----------------------------------|-------------------|
| Upper Floors<br>Residential Units of<br>Fa Yuen Plaza,<br>No. 19<br>Fa Yuen Street,<br>Mongkok, Kowloon | Residential    | 6,360   | 100%                              | Medium            |



**3. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group, the Company nor any subsidiaries have been prepared in respect of any period subsequent to 31 March 2005.

**4. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the present available financial resources, the existing banking facilities available and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements in the absence of unforeseen circumstances.

**5. INDEBTEDNESS**

At the close of business on 28 February 2006, being the latest practicable date for ascertaining this indebtedness prior to the printing of this Prospectus, the Group had in aggregate outstanding bank loans of approximately HK\$6,438,000. In addition, the Group had outstanding at that date interest payable in respect of the above bank loans of approximately HK\$2,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have at the close of business on 28 February 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Foreign currency amounts for the purpose of the calculations in respect of the indebtedness have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 28 February 2006.

### 1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared to illustrate the effect of the Rights Issue on the net tangible assets of the Group as if the Rights Issue had been completed on 30 September 2005. As it is prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group upon completion of the Rights Issue.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the net tangible assets of the Group as at 30 September 2005 as extracted from the published unaudited interim results of the Group as of 30 September 2005 and is adjusted for the effect of the Rights Issue.

| <b>Unaudited<br/>consolidated net<br/>tangible assets<br/>as at<br/>30 September<br/>2005<br/>HK\$'000</b> | <b>Estimated<br/>net proceeds<br/>from the<br/>Rights Issue<br/>(Note 1)<br/>HK\$'000</b> | <b>Unaudited<br/>pro forma adjusted<br/>consolidated net<br/>tangible assets of<br/>the Group after<br/>the Rights Issue<br/>HK\$'000</b> | <b>Unaudited<br/>pro forma adjusted<br/>consolidated<br/>net tangible<br/>assets per Share<br/>immediately after<br/>completion of<br/>the Rights Issue<br/>(Note 2)<br/>HK\$</b> |
|--|---|---|---|
| <u>1,033,620</u>   | <u>77,620</u>   | <u>1,111,240</u>  | <u>0.56</u>   |

*Notes:*

1. The estimated net proceeds from the Rights Issue are based on 661,836,693 Rights Shares of HK\$0.10 each at HK\$0.12 per Rights Share, after deducting the estimated underwriting fees and other related expenses to be incurred by the Company. The 661,836,693 Rights Shares are determined assuming no exercise of the outstanding Share Options granted by the Company before the Record Date. The unaudited pro forma adjusted consolidated net tangible assets per Share would have been decreased if all the outstanding Share Options are exercised in full.
2. The calculation of the unaudited pro forma adjusted consolidated net tangible assets per Share is based on 1,985,510,079 Shares expected to be in issue immediately after completion of the Rights Issue.

**2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS****Deloitte.****德勤****ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

TO THE DIRECTORS OF EASYKNIT INTERNATIONAL HOLDINGS LIMITED

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of Easyknit International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the rights issue of 661,836,693 rights shares of HK\$0.10 each at HK\$0.12 per rights share payable in full on acceptance on the basis of one rights share for every two existing shares held might have affected the financial information presented, for inclusion in Section 1 of Appendix III of the prospectus dated 3 April 2006 (the "Prospectus"). The basis of preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets is set out in Section 1 of Appendix III of the Prospectus.

**Respective Responsibilities of Directors of the Company and Reporting Accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma statement of adjusted consolidated net tangible assets in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to AG 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma statement of adjusted consolidated net tangible assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of adjusted consolidated net tangible assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted consolidated net tangible assets with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work does not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and accordingly we do not express any such assurance on the unaudited pro forma statement of adjusted consolidated net tangible assets.

The unaudited pro forma statement of adjusted consolidated net tangible assets is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2005 or any future date.

### **Opinion**

In our opinion:

- a) the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

3 April 2006

## 1. RESPONSIBILITY STATEMENT

This Prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the Directors and the chief executive of the Company and their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

### A. Interests in the Company

#### 1. *Interests in issued Shares*

| <b>Name of Director</b>     | <b>Nature of interest</b> | <b>Number of issued Shares (long position)</b> | <b>Approximate percentage of interest</b> |
|-----------------------------|---------------------------|--|---|
| Lui Yuk Chu ( <i>Note</i> ) | Beneficiary of a trust    | 486,324,678                                    | 36.74%                                    |

*Note:* These Shares were registered in the name of and were beneficially owned by Magical Profits, 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 include Ms. Lui Yuk Chu and her family members other than spouse).

2. *Interests in unissued Shares*

| <b>Name of Director</b>     | <b>Nature of interest</b> | <b>Number of unissued Shares (long position)</b> | <b>Approximate percentage of interest</b> |
|-----------------------------|---------------------------|--|---|
| Lui Yuk Chu ( <i>Note</i> ) | Beneficiary of a trust    | 243,162,339                                      | 36.74%                                    |

*Note:* These are the Rights Shares which Magical Profits has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Magical Profits was interested in approximately 36.74% of the issued share capital of the Company 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 include Ms. Lui Yuk Chu and her family members other than spouse).

B. **Interests in associated corporations**1. *Asia Alliance*

| <b>Name of Director</b>     | <b>Nature of interest</b> | <b>Number of shares (long position)</b> | <b>Approximate percentage of interest</b> |
|-----------------------------|---------------------------|---|---|
| Lui Yuk Chu ( <i>Note</i> ) | Beneficiary of a trust    | 141,085,252                             | 35.93%                                    |

*Note:* 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 was interested in approximately 36.74% of the issued share capital of the Company and it 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 include Ms. Lui Yuk Chu and her family members other than spouse).

2. *Wellmake Investments Limited (“Wellmake”) (Note)*

| <b>Name of Director</b> | <b>Nature of interest</b> | <b>Number of non-voting deferred share (long position)</b> | <b>Approximate percentage of interest</b> |
|-------------------------|---------------------------|--|---|
| Lui Yuk Chu             | Beneficial owner          | 1  | 50%                                       |

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and/or debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Save as publicly disclosed and for a tenancy agreement dated 28 July 2005 entered into between Wellmake, a wholly-owned subsidiary of the Company, and Neo Apparel Limited, of which Mr. Tse Wing Chiu, Ricky, a Director, is a director and a shareholder, in respect of the leasing of a commercial/industrial unit for a period of 15 months commencing from 1 July 2005 at a monthly rental of HK\$15,419, at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 March 2005 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to any member of the Group.

Save as disclosed in the section headed “Material Contracts” in this appendix, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any existing nor proposed service contracts with any member of the Group, save for the contracts which will expire or are terminable by the employer within one year without payment of compensation, other than statutory compensation.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (the “Substantial Shareholders”) (other than the Directors or the chief executive of the Company) who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or had any options in respect of such shares are set out below:

#### A. Interests in issued Shares

| Name of Substantial Shareholder                            | Nature of interest                 | Number of issued Shares (long position) | Approximate percentage of interest |
|--|------------------------------------|---|------------------------------------|
| Koon Wing Yee ( <i>Note a</i> )                            | Interest of spouse                 | 486,324,678                             | 36.74%                             |
| Magical Profits<br>( <i>Notes a &amp; b</i> )              | Beneficial owner                   | 486,324,678                             | 36.74%                             |
| Accumulate More Profits Limited ( <i>Notes a &amp; b</i> ) | Interest of controlled corporation | 486,324,678                             | 36.74%                             |
| Trustcorp Limited<br>( <i>Notes a &amp; c</i> )            | Trustee                            | 486,324,678                             | 36.74%                             |
| Newcorp Ltd. ( <i>Note c</i> )                             | Interest of controlled corporation | 486,324,678                             | 36.74%                             |
| Newcorp Holdings Limited<br>( <i>Note c</i> )              | Interest of controlled corporation | 486,324,678                             | 36.74%                             |
| David Henry Christopher Hill ( <i>Note c</i> )             | Interest of controlled corporation | 486,324,678                             | 36.74%                             |
| David William Roberts<br>( <i>Note c</i> )                 | Interest of controlled corporation | 486,324,678                             | 36.74%                             |
| Rebecca Ann Hill ( <i>Note c</i> )                         | Interest of spouse                 | 486,324,678                             | 36.74%                             |

*Notes:*

- (a) The 486,324,678 Shares relate to the same block of Shares. These Shares were registered in the name of and were beneficially owned by Magical Profits, which was a wholly-owned subsidiary of Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 486,324,678 Shares by virtue of the SFO.
- (b) Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits and Accumulate More Profits Limited.
- (c) Trustcorp Limited was a wholly-owned subsidiary of Newcorp Ltd.. Newcorp Ltd. was wholly-owned by Newcorp Holdings Limited. Each of Mr. David Henry Christopher Hill and Mr. David William Roberts was interested in 35% of the issued share capital of Newcorp Holdings Limited. 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.



## B. Interests in unissued Shares

| Name of Substantial Shareholder                               | Nature of interest<br>(long position) | Number of<br>unissued<br>Shares |
|---|---------------------------------------|---------------------------------|
| Koon Wing Yee ( <i>Note a</i> )                               | Interest of spouse                    | 243,162,339                     |
| Magical Profits ( <i>Notes a &amp; b</i> )                    | Beneficial owner                      | 243,162,339                     |
| Accumulate More Profits Limited<br>( <i>Notes a &amp; b</i> ) | Interest of controlled corporation    | 243,162,339                     |
| Trustcorp Limited ( <i>Notes a &amp; c</i> )                  | Trustee                               | 243,162,339                     |
| Newcorp Ltd. ( <i>Note c</i> )                                | Interest of controlled corporation    | 243,162,339                     |
| Newcorp Holdings Limited ( <i>Note c</i> )                    | Interest of controlled corporation    | 243,162,339                     |
| David Henry Christopher Hill ( <i>Note c</i> )                | Interest of controlled corporation    | 243,162,339                     |
| David William Roberts ( <i>Note c</i> )                       | Interest of controlled corporation    | 243,162,339                     |
| Rebecca Ann Hill ( <i>Note c</i> )                            | Interest of spouse                    | 243,162,339                     |
| Get Nice Holdings Limited ( <i>Note d</i> )                   | Interest of controlled corporation    | 484,854,354                     |
| Get Nice Incorporated ( <i>Note d</i> )                       | Interest of controlled corporation    | 484,854,354                     |
| Honeylink Agents Limited ( <i>Note d</i> )                    | Interest of controlled corporation    | 484,854,354                     |

*Notes:*

- (a) These are the Rights Shares which Magical Profits has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Magical Profits 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 include Ms. Lui Yuk Chu and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interest in 243,162,339 Rights Shares by virtue of the SFO.
- (b) Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits and Accumulate More Profits Limited.
- (c) Trustcorp Limited was a wholly-owned subsidiary of Newcorp Ltd.. Newcorp Ltd. was wholly-owned by Newcorp Holdings Limited. Each of Mr. David Henry Christopher Hill and Mr. David William Roberts was interested in 35% of the issued share capital of Newcorp Holdings Limited. Mrs. Rebecca Ann Hill, being the spouse of Mr. David Henry Christopher Hill, was deemed to be interested in the 243,162,339 Rights Shares by virtue of the SFO.
- (d) These are the Rights Shares which the Underwriter has underwritten in respect of the Rights Issue (assuming all the Shares Options were exercised before the Record Date). The Underwriter was wholly-owned by Get Nice Incorporated which in turn was wholly-owned by Get Nice Holdings Limited. Get Nice Holdings Limited was owned as to approximately 30.62% by Honeylink Agents Limited. Mr. Hung Hon Man is the beneficial owner of Honeylink Agents Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company are not aware of any other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the

provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital.

#### **4. MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years immediately preceding the date of this Prospectus and are or may be material:

- (a) an underwriting agreement dated 29 April 2004 entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of a rights issue of the Company;
- (b) the provisional agreement dated 17 February 2005 entered into between Wong Ching Man or her nominee as the purchaser, Victor Investment Limited (“Victor Investment”), a wholly-owned subsidiary of the Company, as the vendor and Centaline Property Agency Limited as the agent in respect of the disposal of Shop 19 on Ground Floor, The Annex Land Building of Excelsior Plaza, Nos. 24-26 East Point Road, Causeway Bay, Hong Kong (the “Property 1”) at a consideration of HK\$70 million;
- (c) the agreement for sale and purchase dated 26 April 2005 entered into between Victor Investment as the vendor and Jet Base Limited as the purchaser in respect of the disposal of Property 1 (as referred to in sub-paragraph (b) above);
- (d) the assignment dated 3 August 2005 entered into between Victor Investment as the vendor and Jet Base Limited as the purchaser in respect of the disposal of Property 1 (as referred to in sub-paragraph (b) above);
- (e) the provisional agreement dated 17 February 2005 entered into between Wong Ching Man or her nominee as the purchaser, Perfect Luck Development Limited (“Perfect Luck”), a wholly-owned subsidiary of the Company, as the vendor and Centaline Property Agency Limited as the agent in respect of the disposal of Shop 20 on Ground Floor and Shop 20 on the First Floor, The Annex Land Building of Excelsior Plaza, Nos. 24-26 East Point Road, Causeway Bay, Hong Kong (the “Property 2”) at a consideration of HK\$150 million;
- (f) the agreement for sale and purchase dated 26 April 2005 entered into between Perfect Luck as the vendor and Triple Faith Limited as the purchaser in respect of the disposal of Property 2 (as referred to in sub-paragraph (e) above);
- (g) the assignment dated 3 August 2005 entered into between Perfect Luck as the vendor and Triple Faith Limited as the purchaser in respect of the disposal of Property 2 (as referred to in sub-paragraph (e) above);

- (h) the excess application form in respect of the application for 34,100,000 excess rights shares of Capital Estate Limited (stock code: 193) made by Mark Profit Development Limited (“Mark Profit”), a wholly-owned subsidiary of the Company, on 17 October 2005 (Mark Profit was allotted 33,286,000 excess rights shares of Capital Estate Limited at a total consideration of HK\$33,286,000); and
- (i) the Underwriting Agreement.

## **5. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and, so far as the Directors are aware, there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

## **6. MATERIAL ADVERSE CHANGES**

The Directors are of the opinion that, save as publicly disclosed, there has not been any material adverse change in the financial or trading position of the Group since 31 March 2005, being the date to which the latest published audited accounts of the Group were made up.

## **7. LEGAL EFFECT**

The Prospectus, the PAL and the EAF, and all acceptances of any offer or application contained in or pursuant to such documents, are and shall be governed by and construed in accordance with the laws of Hong Kong. Where an acceptance or application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by all the provisions, other than the penal provisions, of sections 44A and 44B of the Companies Ordinance, so far as applicable.

## **8. EXPENSES**

The expenses in connection with the Rights Issue, including but not limited to financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to amount to approximately HK\$1.8 million and are payable by the Company.

## **9. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

A copy of this Prospectus having attached thereto the PAL and EAF and the written consent of Deloitte Touche Tohmatsu have been registered by the Registrar of Companies in Hong Kong pursuant to section 342C of the Companies Ordinance.

A copy of this Prospectus will, as soon as reasonably practicable, be filed with the Registrar of Companies in Bermuda in accordance with the Companies Act 1981 of Bermuda (as amended).

**10. EXPERT**

The following is the qualification of the expert who has been named in this Prospectus or has given its opinion or advice which is contained in this Prospectus:

| <b>Name</b>              | <b>Qualification</b>         |
|--------------------------|------------------------------|
| Deloitte Touche Tohmatsu | Certified Public Accountants |

Deloitte Touche Tohmatsu do not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Deloitte Touche Tohmatsu do not have any direct or indirect interests in any assets which have been, since 31 March 2005 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

Deloitte Touche Tohmatsu have given and have not withdrawn their written consent to the issue of this Prospectus with the inclusion of their report and the references to their name in the form and context in which they appear.

**11. MISCELLANEOUS**

The English texts of this Prospectus, the PAL and the EAF shall prevail over the Chinese texts in the case of any inconsistency.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong up to and including Monday, 24 April 2006:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the Underwriting Agreement;
- (c) the irrevocable undertaking letter dated 7 March 2006;
- (d) the letter of consent referred to in the section headed "Expert" above;
- (e) the accountants' report on pro forma financial information relating to unaudited adjusted consolidated net tangible assets value;
- (f) the circular dated 6 April 2005 relating to a very substantial disposal of the Company;

- (g) the circular dated 14 November 2005 relating to a discloseable transaction of the Company;
- (h) the unaudited interim report of the Company for the six months ended 30 September 2005;
- (i) the annual reports of the Company for each of the two years ended 31 March 2004 and 31 March 2005; and
- (j) the material contracts referred to in the section headed “Material Contracts” in this appendix.

**EXPECTED TIMETABLE FOR RIGHTS ISSUE IN SINGAPORE**

2006

Latest time and date for determining  
depositors' entitlements to Rights Issue ..... 5:00 p.m. on Monday, 27 March

Prospectus Documents despatched to persons  
holding Shares through CDP ..... Monday, 3 April

Dealings in the nil-paid Rights Shares ..... Monday, 3 April to Tuesday, 4 April

Latest time and date for payment for and  
acceptance of Rights Shares ..... 4:45 p.m. on Monday, 10 April  
(for acceptance through CDP)  
9:30 p.m. on Monday, 10 April  
(for acceptance through automated  
teller machines of participating banks)

Latest time and date for the Rights Issue and  
Underwriting Agreement to become unconditional ..... 4:00 p.m. on Monday, 24 April

Announcement of results of acceptances and  
excess applications in the Rights Issue ..... Tuesday, 25 April

Crediting of CDP depositors for Rights Shares on or before ..... Thursday, 27 April

Despatch of refund cheques in respect of unsuccessful or  
partially unsuccessful excess application ..... Thursday, 27 April

Dealings in fully-paid Rights Shares on the SGX-ST commences ..... Friday, 28 April

**Investors should be aware that Singapore nil-paid Rights Shares cannot be traded in Hong Kong and Hong Kong nil-paid Rights Shares cannot be traded in Singapore.**

Persons holding the Shares through CDP should receive a letter from CDP (on behalf of the Company) relating to the Rights Issue and should refer to that letter for, inter alia, the procedures for application of the Rights Shares.

**DEALINGS AND SETTLEMENT IN SHARES ON THE SGX-ST****Dealings, brokerage and fees on the SGX-ST**

1. Dealings in the Shares on the SGX-ST are conducted in Hong Kong dollars. The Shares are traded in board lots of 5,000 Shares.
2. The brokerage commission in respect of trades of the Shares on the SGX-ST is negotiable.
3. A Singapore clearing fee is payable at the rate of 0.05 per cent. of the transaction value (up to a maximum of S\$200 per transaction). Clearing fees may be subject to the Goods and Services Tax in Singapore.

**Settlement of dealings in Singapore**

1. In accordance with the bye-laws of the SGX-ST relating to settlement of dealings on the SGX-ST, it is mandatory for dealings on the SGX-ST to be effected through CDP on a scripless basis. The settlement will take place on the third Business Day following the date of transaction (“Due Date”) or in the event that the Due Date falls on a public holiday, the settlement will take place on the next Market Day immediately after the Due Date.
2. CDP holds securities on behalf of investors in Securities Accounts. An investor may open a Securities Account with CDP or a sub-account with any Depository Agent. A Depository Agent may be a member company of the SGX-ST, bank, merchant bank or trust company.
3. Investors should ensure that the Shares to be dealt in on the SGX-ST are credited to their Securities Accounts or sub-accounts with Depository Agents before dealing in the Shares since no assurance can be given that the Shares can be transferred to CDP in time for settlement if the transfer is effected following a dealing. If settlement cannot be effected on the Due Date following a dealing having been effected on the SGX-ST, the buy-in procedures of the SGX-ST will be implemented.
4. Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of the Rights Shares or Shares (as the case may be). It is emphasised that the Company, the Directors and all other persons involved in the Rights Issue accept no responsibility for any tax effects on, or liabilities of, Shareholders resulting from the subscription, purchase, holdings or disposal of the Rights Shares or Shares (as the case may be).

**Ongoing transfer procedures***1. Transfer of Shares to CDP*

Citibank, N.A. Singapore is the CCASS Participant appointed by CDP to hold the Shares in CCASS. An investor whose Shares are held in Hong Kong and who wishes to trade his Shares on the SGX-ST must have his Shares transferred into his Securities Account with CDP. If the investor is holding shares certificate(s), he may deposit the share certificate(s) with his own CCASS Participant and instruct the CCASS Participant to transfer the holdings to Citibank, N.A. Singapore for the account of CDP.

If the Shares to be transferred to CDP are already held in CCASS, the investor will only need to instruct his CCASS Participant to transfer the Shares to Citibank, N.A. Singapore for the account of CDP.

The investor has to simultaneously submit the duly completed CDP Form 29A.4 to CDP through his Depository Agent or member company, together with a fee prescribed in CDP Form 29A.4. In the event that the investor maintains a sub-account with a Depository Agent, the CDP Form 29A.4 will be completed by the Depository Agent on his behalf.

Having verified that the CDP Form 29A.4 has been correctly completed, CDP will instruct Citibank, N.A. Singapore to acknowledge the receipt of the Shares in CCASS. Upon notification by Citibank, N.A. Singapore of the receipt of the Shares, CDP will accordingly credit the investor's Securities Account with the relevant number of Shares and notify the investor accordingly.

*2. Transfer of Shares out of CDP*

An investor may transfer his Shares out of CDP to Hong Kong if he wishes to trade on the Stock Exchange. To effect the transfer, the Depository Agent or member company on behalf of the investor has to submit the duly completed CDP Form 29B.4 to CDP together with a fee prescribed in CDP Form 29B.4. Having verified that the CDP Form 29B.4 has been correctly completed, CDP will debit the investor's Securities Account for the relevant number of Shares and notify the investor accordingly. After the debit, CDP will instruct Citibank, N.A. Singapore to transfer the Shares to the CCASS Participant indicated by the investor.

The investor has to simultaneously instruct his CCASS Participant to expect receipt of the number of Shares specified by Citibank, N.A. Singapore.

**Time needed for transfer of Shares**

Barring unforeseen circumstances, the transfer of Shares in and out of CDP will take three Market Days to complete, after the duly completed documentation is submitted to CDP for processing and proper instructions are given by the investor to his CCASS Participant. **It must be noted that Instructions received by CDP after 10:00 a.m. on a given Market Day will be considered as a request made on the next Market Day and will be processed on the next Market Day.**