

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

**If you have sold or transferred** all your shares in Easyknit International Holdings Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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**

**MAJOR TRANSACTION**

**PROPOSED ACQUISITION OF PROPERTIES**

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A letter from the board of directors of Easyknit International Holdings Limited is set out on pages 4 to 12 of this circular.

A notice convening a special general meeting of Easyknit International Holdings Limited to be held on 19 July 2006 at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 9:00 a.m. is set out on pages 119 to 120 of this circular. Whether or not shareholders are able to attend the special general meeting, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to 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 as soon as possible but in any event not less than 48 hours before the time appointed for holding the special general meeting. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the special general meeting or any adjournment thereof in person, should they so wish.

\* For identification only

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## DEFINITIONS

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

“Acquisition Agreement”	the agreement dated 6 June 2006 entered into between Easyknit Properties and the Vendor for the sale and purchase of the Sale Shares and the Loan
“associate”	the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Building”	the building situated in Kowloon Inland Lot No. 1344 (Nos. 1 and 1A Victory Avenue, Kowloon, Hong Kong) and Kowloon Inland Lot No. 1343 (Nos. 3 and 3A Victory Avenue, Kowloon, Hong Kong)
“Company”	Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange and the SGX-ST
“Completion”	the date fixed for completion of the Acquisition Agreement, which is expected to be on 22 July 2006
“Consideration”	the consideration payable for the Sale Shares and the Loan of HK\$53,680,000
“Consultancy Agreement”	the consultancy agreement dated 10 May 2006 entered into by Happy Light and Rich Era, which was subsequently amended by the supplemental agreement dated 22 May 2006 entered into by Happy Light and Rich Era
“Director(s)”	director(s) of the Company
“Easyknit Properties”	Easyknit Properties Holdings Limited, a company incorporated in British Virgin Islands and a wholly owned subsidiary of the Company
“Formal Agreements”	the 7 sale and purchase agreements entered into between Happy Light and the respective Property Vendor(s) in relation to the sale of the Properties
“Group”	the Company and its subsidiaries
“Happy Light”	Happy Light Investments Limited, a company incorporated in the British Virgin Islands and wholly-owned by Ng Chi Keung
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China

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## DEFINITIONS

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“Independent Third Party”	a third party independent of the Company and of connected persons (as defined in the Listing Rules) of the Company
“Latest Practicable Date”	30 June 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	all sums owed by Happy Light to the Vendor at Completion, whether or not then due for payment
“Option”	the option granted by the Vendor to Easyknit Properties to request the Vendor to purchase the Sale Shares and the Loan from Easyknit Properties after the Completion, under certain circumstances as set out in this circular
“Ordinance”	Land (Compulsory Sale for Redevelopment) Ordinance (Cap. 545 the Laws of Hong Kong)
“Properties”	collectively, G/F, 2/F, 3/F, 4/F, 5/F and the roof of 1 Victory Avenue, Kowloon; 1/F to 3/F and the roof of 1A Victory Avenue, Kowloon, 3 and 3A Victory Avenue, Kowloon
“Property Vendors”	the vendor(s) of the Properties under the Formal Agreements
“Remaining Units”	the remaining two units in the Building which are not subject to the Formal Agreements
“Rich Era”	Rich Era Development Limited, a company incorporated in Hong Kong and wholly-owned by an Independent Third Party
“Sale Shares”	the entire share capital of Happy Light in issue at Completion
“SGM”	the special general meeting of the Company to be convened to approve, amongst other things, the Acquisition Agreement and the Transaction
“SGX-ST”	Singapore Exchange Securities Trading Limited
“Shareholder(s)”	holder(s) of Shares
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Transaction”	the proposed acquisition of the Building by the Group, including the proposed acquisition of the Properties through the acquisition of the Sale Shares and the Loan by Easyknit Properties pursuant to the Acquisition Agreement, and the proposed acquisition of the Remaining Units
“Vendor”	Ng Chi Keung, an individual who is an Independent Third Party
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	percentage or per centum



**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 July 2006

*To the Shareholders,*

Dear Sir or Madam,

**MAJOR TRANSACTION  
PROPOSED ACQUISITION OF PROPERTIES**

**INTRODUCTION**

It was stated in the announcement of the Company dated 8 June 2006 that on 6 June 2006, Easyknit Properties, a wholly owned subsidiary of the Company, and the Vendor entered into a sale and purchase agreement in relation to the acquisition of Happy Light, a company incorporated in the British Virgin Islands, for a consideration of HK\$53,680,000.

\* *For identification only*

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## LETTER FROM THE BOARD

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The Company proposes to acquire Happy Light so as to acquire interests in the Properties, which consist of 18 out of 20 units in the Building. The Properties constitute 90% of the undivided shares of the Building (as contemplated under section 3(2)(b) of the Ordinance). The Group intends to acquire the Remaining Units and it estimates that the Group will incur approximately HK\$170 million in total for the acquisition of the whole Building.

The Transaction constitutes a major transaction for the Company under the Listing Rules and is conditional upon the fulfillment of certain conditions precedent which include, among other things, the approval by the Shareholders of the Transaction at the SGM.

This circular contains details of the Transaction as required by the Listing Rules.

### THE ACQUISITION AGREEMENT

#### Introduction

On 6 June 2006, Easyknit Properties entered into the Acquisition Agreement to acquire a 100% interest in Happy Light. Happy Light entered into the Formal Agreements for the acquisition of the Properties in May 2006. The Acquisition Agreement and the Formal Agreements are summarised below.

#### The Acquisition Agreement

<b>Date:</b>	6 June 2006
<b>Parties:</b>	
<i>Purchaser:</i>	Easyknit Properties
<i>Vendor:</i>	Ng Chi Keung

To the best knowledge of the Directors after making all reasonable enquiries, Ng Chi Keung is an Independent Third Party.

#### *Assets to be acquired*

Pursuant to the Acquisition Agreement, Easyknit Properties will acquire, and the Vendor will sell, the Sales Shares and the Loan. The Sale Shares represent 100% of the issued share capital of Happy Light. Based on the management accounts of Happy Light, as at 31 May 2006, Happy Light owed the Vendor approximately HK\$11.6 million. Happy Light is principally engaged in property investment in Hong Kong.

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## LETTER FROM THE BOARD

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### *Conditions precedent*

The completion of the Acquisition Agreement is conditional upon fulfilment of, among other things, the following conditions:

- (i) the approval by the Shareholders of the Acquisition Agreement and the transactions contemplated thereby, including the exercise of the Option, in accordance with the Listing Rules;
- (ii) Easyknit Properties undertaking a “due diligence review” of Happy Light and being satisfied with such review in all respects; and
- (iii) no event being occurred which could reasonably be construed as being capable in preventing completion of any of the Formal Agreements taking place on 22 July 2006.

### *Completion*

Subject to the fulfilment of the conditions precedent, completion of the Acquisition Agreement shall take place on 22 July 2006.

If the conditions precedent set in the sub-paragraph headed “Conditions precedent” above have not been satisfied (or, in case of the condition (ii) and (iii), have not been waived in writing by Easyknit Properties) on or before 21 July 2006, the Acquisition Agreement shall cease and determine and Easyknit Properties shall have no obligations and liabilities under the Acquisition Agreement save for any prior breaches under the terms of the Acquisition Agreement. Easyknit Properties does not have any intention to waive any of the conditions precedent of the Acquisition Agreement.

### *Consideration*

The Consideration pursuant to the Acquisition Agreement is HK\$53,680,000. The Consideration was fixed after arm’s length negotiation by the parties to the Acquisition Agreement and having taken into account the discount of the aggregate purchase price for the Properties under the Formal Agreements over the estimated current market value of the property interest comprising 18 out of the total 20 units in the Building on redevelopment basis with vacant possession as valued by an independent valuer. Details of the calculation of the estimated current market value of the Properties are set out in the paragraph under the heading “Redevelopment of the Building” below.

The current market value of the Building on redevelopment basis with vacant possession is estimated at HK\$210 million while the current market value of the Properties not on redevelopment basis with vacant possession is estimated at HK\$80.5 million. The total saleable floor area of the 18 units, as estimated by the Company based on the floor plans available to it, is approximately 13,467 sq.ft. while the total saleable floor area of the whole Building is approximately 14,948 sq.ft.. The Company has engaged independent valuer to conduct valuation of the Properties to determine the current market value of the Properties not on redevelopment basis. Copies of the valuation reports on the Properties (on non-development basis) are included in Appendix V of this circular.



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## LETTER FROM THE BOARD

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Based on the unaudited management accounts of Happy Light, as at 31 May 2006, its net liabilities was HK\$6,466.24. The current assets was approximately HK\$11,762,000 which consisted of deposit paid under the Formal Agreements, consultancy fees paid to Rich Era and legal fees payable regarding the Formal Agreements. The current liabilities consisted of shareholders' loan of HK\$11,606,466.24.

The Consideration is payable by Easyknit Properties in the following manner (or such other means or manner as may be agreed between the parties):-

- (i) a deposit of HK\$5,000,000 ("Deposit") payable upon signing of the Acquisition Agreement;
- (ii) a sum of HK\$35,000,000 ("2nd Payment") payable upon Completion; and
- (iii) HK\$13,680,000 ("Retention Amount") payable in accordance with the terms below.

### *Deposit*

Upon the signing of the Acquisition Agreement, the Deposit was held by the Vendor's solicitor as stakeholder in part payment of the Consideration. If the conditions precedent are not satisfied or waived before Completion, or Easyknit Properties terminates the Acquisition Agreement, the Deposit is to be refunded to Easyknit Properties with accrued interest. The Deposit and accrued interest shall be paid to the Vendor upon Completion.

### *Retention Amount*

The Retention Amount will be dealt with in the following manner:-

- (i) if completion of all the Formal Agreements takes place on 22 July 2006 in accordance with the terms of the Formal Agreements, the Retention Amount will be paid to the Vendor on or before 26 July 2006; or
- (ii) if completion of one or more of the Formal Agreements does not take place on 22 July 2006 and Easyknit Properties exercises the Option, the Retention Amount will not be paid to the Vendor; or
- (iii) if completion of one or more of the Formal Agreements does not take place on 22 July 2006 and Easyknit Properties does not exercise the Option, the Retention Amount will be applied towards payment of costs and expenses incurred in connection with taking advice and/or pursuing claims by Easyknit Properties under any of the Formal Agreements. Any remaining balance of the Retention Amount upon resolution of such claims will be paid to the Vendor if and when completion of all the Formal Agreements have taken place.

### *Source of funding*

The Group will fund the acquisition of Happy Light from internal resources of the Group.

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## LETTER FROM THE BOARD

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### *Option*

Pursuant to the Acquisition Agreement, the Vendor granted to Easyknit Properties the right to require the Vendor to purchase from Easyknit Properties, all but not part only of the Sale Shares and the Loan if completion of any of the Formal Agreements does not take place on 22 July 2006 at a consideration equivalent to the aggregate of (i) HK\$40,000,000 and (ii) the total sum paid by Easyknit Properties and/or Happy Light and/or any of their respective associates under any of the Formal Agreements without interest. The Option may be exercised by Easyknit Properties by notice in writing to the Vendor any time on or before 26 July 2006.

After Completion, Happy Light will become an indirect wholly-owned subsidiary of the Company.

### **ACQUISITION OF THE PROPERTIES BY HAPPY LIGHT**

#### **The Formal Agreements**

On 18 May 2006 and 22 May 2006, Happy Light entered into 7 formal sale and purchase agreements with 7 different Property Vendors for the acquisition of a total of 18 units in the Building situated at 1-3A Victory Avenue, Kowloon. The completion of the Formal Agreements is expected to be on 22 July 2006 and the total consideration for the acquisition of the Properties under the Formal Agreements was HK\$95.6 million.

To the best knowledge of the Directors after making all reasonable enquiries, the Property Vendors are Independent Third Parties.

Happy Light paid a total deposit of HK\$9.57 million (representing approximately 10% of the total consideration under all of the Formal Agreements) to the Property Vendors upon execution of the Formal Agreements. Upon completion of the Formal Agreements on 22 July 2006, Happy Light will have to pay the balance of the consideration in the sum of HK\$86.03 million to the Property Vendors. If the Acquisition Agreement completes on 22 July 2006, Happy Light will then become a wholly-owned subsidiary of the Group. Hence upon completion of the Formal Agreements, the Group will be responsible for paying the Property Vendors through Happy Light the balance of the consideration for the Properties of HK\$86.03 million.

#### **The Consultancy Agreement**

On 10 May 2006, Happy Light entered into a consultancy agreement with Rich Era in relation to the acquisition of all units in the Building. The consultancy agreement was subsequently amended by a supplemental agreement between Happy Light and Rich Era dated 22 May 2006.

To the best knowledge of the Directors after making all reasonable enquiries, Rich Era is an Independent Third Party. Based on the confirmation from the Vendor, the Vendor does not have any relationship with Rich Era, its directors or its ultimate owner.

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## LETTER FROM THE BOARD

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Pursuant to the Consultancy Agreement, Rich Era was appointed as a consultant to Happy Light in connection to the acquisition of the Building and Happy Light paid Rich Era a consultancy fee of HK\$2,030,000 on 23 May 2006. Upon completion of the Formal Agreements, Happy Light will have to pay Rich Era a consultancy fee of HK\$12,134,000 and the Group will be responsible for such payment if the Acquisition Agreement completes on 22 July 2006.

Under the terms of the Consultancy Agreement, Happy Light will also have to pay Rich Era HK\$6,156,000 upon completion of the purchase of the Remaining Units. To the best knowledge of the Directors after making all reasonable enquiries, the owners of the Remaining Units are Independent Third Parties.

### **Source of funding**

The Group will pay the balance of the consideration for acquisition of the Properties and the fees payable to Rich Era by internal resources of the Group.

### **REASONS FOR AND BENEFITS OF THE TRANSACTION**

The Properties represent 90% of the undivided shares of the plot of land on which the Building is situated (as contemplated under section 3(2)(b) of Ordinance). The Properties are subject to 17 existing tenancy agreements at the time of the completion of the Formal Agreements and save for 5 tenancy agreements, all the tenancies will expire within 12 months from the date of the Acquisition Agreement. The remaining tenancies will expire within 18 months from the date of the Acquisition Agreement.

### **Redevelopment of the Building**

The Building is located at the prime commercial and residential location near Ho Man Tin and Mongkok, Kowloon. The Group intended to acquire the Remaining Units so as to have the ownership over the whole Building for redevelopment. Based on the market value of the Remaining Units, the Directors estimated that it would cost approximately HK\$6 million to acquire each of the Remaining Units. Taking into account the Consideration, the balance of the consideration payable to the Property Vendors under the Formal Agreements and the fees payable to Rich Era, it estimated that the Group will incur approximately HK\$170 million in total for the acquisition for the whole Building. Based on the valuation by independent valuers, the current market value of the 100% interest of the Building on the basis of redevelopment with vacant possession is HK\$210 million as at 1 June 2006.

Hence, in view of the redevelopment potential of the Building, the Group proposed to acquire Happy Light which has entered into the Formal Agreements to acquire the Properties. The Properties constitute 90% of the undivided shares of the Building (as contemplated under section 3(2)(b) of the Ordinance). The Directors noted that pursuant to the Ordinance, the owners of 90% or more of the undivided shares of a building may request for compulsory sale of all the shares in that building for re-development purpose.

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## LETTER FROM THE BOARD

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### Land (Compulsory Sale for Redevelopment) Ordinance

To summarise, the Ordinance provides that the person or persons who own not less than 90% of the undivided shares in a lot (the “Majority Owner”) may make an application, accompanied by a valuation report, to the Lands Tribunal for an order to sell all the undivided shares in the lot for redevelopment purpose (the “Sale Order”). The Lands Tribunal will then hear the objections of the minority owners (if any) and if, among other things, it is satisfied that the redevelopment of the lot is justified and the Majority Owner has taken reasonable steps to acquire all the undivided shares in the lot including negotiating for the purchase of such of those shares as are owned by minority owners on terms that are fair and reasonable, may make an order for sale.

When deciding an application for a Sale Order, s. 4(1) of the Ordinance requires the Lands Tribunal to:-

- (a) if any minority owner of the lot disputes the value of any property as assessed in the application, hear and determine the dispute;
- (b) make or refuse to make a Sale Order; and
- (c) if a Sale Order is made, appoint trustees nominated by the Majority Owner to discharge the duties imposed on trustees under the Ordinance in relation to the lot.

Under s. 5(1) of the Ordinance, where a Sale Order is granted, the lot shall be sold by (a) public auction, or (b) by any other means agreed in writing by each minority owner and Majority Owner of the lot and approved by the Lands Tribunal. Section 5(5) of the Ordinance requires that if the lot is to be sold by auction, it shall be sold to the highest bidder at the auction. It stated expressly in s. 5(5)(b) of the Ordinance that nothing in the Ordinance shall operate to prevent the Majority Owner or the minority owner from being the purchaser of the lot.

Where the Majority Owner is the purchaser of the lot, under s. 6 of the Ordinance, it is not required to pay the full purchase price for the lot to the trustees, but to pay not less than the proportion of the amount that the trustees calculate is necessary for it to purchase all the undivided shares in the lot not already owned by it.

As described above, Happy Light will become the Majority Owner of the Building upon completion of the Formal Agreements. The Directors are optimistic about the prospects of acquiring the whole Building should the completion of the Acquisition Agreement proceed. The Company will issue an announcement to inform the Shareholders when the purchase of the Remaining Units is completed.

On the other hand, if the Building is sold by public auction pursuant to the Ordinance, and Happy Light, being the Majority Owner, fails to bid for all the undivided shares successfully in the auction because it is not the highest bidder, the Group will still receive the sales proceeds for its undivided shares in the Building from that bidder. Such sale proceeds are very likely to be above the costs incurred by the Group for the acquisition of its undivided shares in the Building since the bid must be higher than that put forward by the Group.

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## LETTER FROM THE BOARD

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### Effect on earnings of the Group

As rental income will be generated from the Properties, the acquisition of Happy Light and the Properties will lead to a small increment on the Group's earnings of approximately HK\$433,000 for the year ended 31 March 2007 and such earnings will decrease as the tenancies expire. On re-development basis, the effect of the acquisition of the whole Building is that: (i) the properties held under re-development of the Group are increased by approximately HK\$210 million and (ii) the cash reserve of the Group will be decreased by approximately HK\$170 million when the acquisition of the whole Building completes. On market value basis, the effect of the acquisition of the Properties is that (i) the properties held under re-development of the Group are increased by approximately HK\$151.9 million and (ii) the cash reserve will be decreased by approximately HK\$151.8 million. The acquisition of Happy Light, the Properties and the proposed acquisition of the Remaining Units will have no potential effect on the Group's liabilities before Completion because the Group will only utilise its internal resources for the expenses and costs incurred in the Transaction.

The Directors are of the view that the Transaction as a whole is in the interest of the Group and is on normal commercial terms, which are fair and reasonable and in the interest of the Shareholders as a whole.

### GENERAL

The Company and its subsidiaries are principally engaged in the sourcing and export of cotton-based knitted garments for women, children and infants, and property investment.

The Transaction constitutes a major transaction for the Company under the Listing Rules, therefore it is subject to the Shareholders' approval under Chapter 14 of the Listing Rules.

### SGM

A notice convening a special general meeting of the Company to be held on 19 July, 2006 at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 9:00 a.m. is set out on pages 119 to 120 of this circular. An ordinary resolution will be proposed at the SGM for the Shareholders to approve the Transaction.

No Shareholder or his associates has a material interest in the Transaction. Therefore no Shareholder is required to abstain from voting under the Listing Rules.

A form of proxy for use at the SGM is enclosed. Whether or not Shareholders are able to attend the SGM in person, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude Shareholders from attending and voting at the SGM or any adjournment thereof in person, if they so wish.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Board believes that the Transaction is in the best interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders vote in favour of the ordinary resolution to be proposed at the SGM to approve the Transaction.

### ADDITIONAL INFORMATION

Your attention is also drawn to the notice of the SGM and the additional information set out in the appendices to this circular.

By Order of the Board  
**Easyknit International Holdings Limited**  
**Tse Wing Chu, Ricky**  
*President and Chief Executive Officer*

## 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 2005 HK\$'000 (Unaudited)	31 March 2005 HK\$'000 (Audited) (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 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>



	<i>NOTES</i>	<b>30 September 2005</b> <i>HK\$'000</i> <i>(Unaudited)</i>	<b>31 March 2005</b> <i>HK\$'000</i> <i>(Audited)</i> <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><u>1,085,819</u></u>	<u><u>1,133,564</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Attributable to equity holders of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Special reserve HK\$'000	Contributed surplus HK\$'000	Accumulated (losses) profits HK\$'000	
At 1 April 2004								
— as previously stated	88,245	1,117,131	895,932	—	9,800	—	(1,443,893)	667,215
— effect of changes in accounting policies (see note 3)	—	—	—	—	—	—	(3,912)	(3,912)
— as restated	88,245	1,117,131	895,932	—	9,800	—	(1,447,805)	663,303
Profit for the year and total recognised income for the year	—	—	—	—	—	—	348,469	348,469
Reductions of share premium and capital reserve and offsetting of accumulated losses (see note 17)	—	(1,117,131)	(895,932)	—	—	227,555	1,785,508	—
Rights issue of shares at a price of HK\$0.11 per rights share	44,122	4,412	—	—	—	—	—	48,534
2004 final dividend paid (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 accounting policies (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 of associates	—	—	—	488	—	—	—	488
Net gain recognised directly in equity	—	—	—	488	—	—	—	488
Loss for the period	—	—	—	—	—	—	(13,938)	(13,938)
Total recognised income and expense for the period	—	—	—	488	—	—	(13,938)	(13,450)
2005 final dividend paid (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
	Share capital	Share premium	Capital reserve	Exchange reserve	Special reserve	Contributed surplus	Accumulated (losses) profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2004								
— as previously stated	88,245	1,117,131	895,932	—	9,800	—	(1,443,893)	667,215
— effect of changes in accounting policies (see note 3)	—	—	—	—	—	—	(3,912)	(3,912)
— as restated	88,245	1,117,131	895,932	—	9,800	—	(1,447,805)	663,303
Profit for the period and total recognised income for the period	—	—	—	—	—	—	75,826	75,826
Reductions of share premium and capital reserve and offsetting of accumulated losses (see note 17)	—	(1,117,131)	(895,932)	—	—	227,555	1,785,508	—
Rights issue of shares at a price of HK\$0.11 per rights share	44,122	4,412	—	—	—	—	—	48,534
2004 final dividend paid (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

	Six months ended 30 September	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
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 profit or loss/other investments	(8,302)	(48,973)
Proceeds from disposal of other investments	—	5,158
Payment of consideration repayable on disposal of subsidiaries	(11,120)	—
Consideration received on disposal of a subsidiary	—	39,500
Disposal of subsidiaries, net of cash and cash 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, 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 30 September	
	2005 <i>HK\$'000</i>	2004 <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 <i>HK\$'000</i> <i>(previously stated)</i>	Adjustments <i>HK\$'000</i>	31.3.2005 <i>HK\$'000</i> <i>(restated)</i>	Adjustments <i>HK\$'000</i>	1.4.2005 <i>HK\$'000</i> <i>(restated)</i>
<b>Balance sheet items</b>					
Other investments	244,030	—	244,030	(244,030)	—
Investments at fair value 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 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:

	31.3.2004 HK\$'000 (previously stated)	Adjustments HK\$'000	31.3.2004 HK\$'000 (restated)
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.

	Continuing operations				Eliminations HK\$'000	Consolidated HK\$'000
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000		
<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	Eliminations	Consolidated
	Garment	Property	Investment	Loan	operation		
	sourcing and export	investment	in securities	financing	Bleaching and dyeing		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Six months ended</b>							
<b>30 September</b>							
<b>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>
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## 8. TAXATION

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2005</b>	<b>2004</b>
	<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:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2005</b>	<b>2004</b>
	<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>

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2005</b>	<b>2004</b>
<b>Number of shares</b>		
Number/weighted average number of shares for the purposes of basic (loss) earnings per share	<u><u>1,323,673,386</u></u>	<u><u>1,124,893,809</u></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	8,882	7,783
	<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	2,045	3,275
	<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>Amount</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 tax depreciation</b>	<b>Investment properties</b>	<b>Tax 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 2005</b>	<b>31 March 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.

The results of the discontinued operations were as follows:

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

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>38,655</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>38,655</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>49,352</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</b>	<b>31 March</b>
	<b>2005</b>	<b>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>12,012</u>	<u>95,476</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</b>	<b>31 March</b>
	<b>2005</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills discounted with recourse	—	3,441
	<u>          </u>	<u>          </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

	<i>NOTES</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i> <i>(Restated)</i>
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>

	<i>NOTES</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i> <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>356,353</u>	<u>140,830</u>	<u>(24,871)</u>
Proposed dividend	13	<u>6,618</u>	<u>6,618</u>	<u>—</u>
Earnings (loss) per share	14			
Basic		<u>HK\$0.293</u>	<u>HK\$0.166</u>	<u>HK\$(0.041)</u>
Diluted		<u>HK\$0.291</u>	<u>N/A</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

At 31 March 2005

	NOTES	2005 HK\$'000	2004 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>

	<i>NOTES</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <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 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>

**BALANCE SHEET***At 31 March 2005*

	<i>NOTES</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <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>1,033,965</u>	<u>364,169</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>1,033,965</u>	<u>364,169</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2005

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>(Note 32)</i>	Special reserve <i>HK\$'000</i> <i>(Note 32)</i>	Contributed surplus <i>HK\$'000</i> <i>(Note 32)</i>	Accumulated (losses) profits <i>HK\$'000</i>	Total <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 premium and capital reserve and offsetting accumulated losses <i>(see note 32)</i>	—	(1,117,131)	(895,932)	—	227,555	1,785,508	—
Rights issue of shares at a price of HK\$0.11 per rights share	44,122	4,412	—	—	—	—	48,534
Net profit for the year	—	—	—	—	—	356,353	356,353
2004 final dividend paid	—	—	—	—	(6,618)	—	(6,618)
At 31 March 2005	<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

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
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

	<i>NOTES</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <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
	Garment sourcing and export	Property investment	Investment in securities	Loan financing	Bleaching and dyeing	Eliminations	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 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.

## (ii) Balance sheet

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

## (iii) Other information

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

## Year 2004

## (i) Income statement

	Continuing operations				Discontinued operations			Consolidated HK\$'000
	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Loan financing HK\$'000	Tele- communications services and related investments HK\$'000	Bleaching and dyeing HK\$'000	Eliminations 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 profit from operations	<u>36,169</u>	<u>59,130</u>	<u>(2,333)</u>	<u>4,701</u>	<u>(26,274)</u>	<u>(363)</u>	<u>(8,462)</u>	62,568
Gain on disposal of a subsidiary			63,950					63,950
Gain on deemed disposal of discontinued operations					19,317			19,317
Gain on partial disposal of a subsidiary					886			886
Finance costs								(7,855)
Share of results of associates					(3,919)			(3,919)
Share of results of a jointly controlled entity					(72)			<u>(72)</u>
Profit before taxation								134,875
Taxation								<u>(2,459)</u>
Profit before minority 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.

## (ii) Balance sheet

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

**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 segment assets</b>		<b>Additions to property, 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> <i>HK\$'000</i>	<b>2004</b> <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, 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> <i>HK\$'000</i>	<b>2004</b> <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> <i>HK\$'000</i>	<b>2004</b> <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> <i>HK\$'000</i>	<b>2004</b> <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 <i>HK\$'000</i>	2004 <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

	2005 <i>HK\$'000</i>	2004 <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

	2005 <i>HK\$'000</i>	2004 <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	<u>1</u>	<u>1</u>
	<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> <i>HK\$'000</i>	<b>2004</b> <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> <i>HK\$'000</i>	<b>2004</b> <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 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

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

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

## 14. EARNINGS PER SHARE

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

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

	2005	2004
<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 land and buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <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)
	<u>41,384</u>	<u>—</u>	<u>14,616</u>	<u>2,293</u>	<u>58,293</u>
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 IMPAIRMENT LOSS					
At 1 April 2004	18,445	2,094	14,017	1,750	36,306
Provided for the year	530	227	640	222	1,619
On disposal of subsidiaries	—	(2,317)	(928)	(48)	(3,293)
Eliminated on disposals	—	(4)	(8)	(762)	(774)
	<u>18,975</u>	<u>—</u>	<u>13,721</u>	<u>1,162</u>	<u>33,858</u>
At 31 March 2005	<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>
COST	
At 1 April 2004	230,381
Disposals	<u>(230,381)</u>
At 31 March 2005	<u>—</u>
AMORTISATION	
At 1 April 2004	229,497
Provided for the year	884
Eliminated on disposals	<u>(230,381)</u>
At 31 March 2005	<u>—</u>
CARRYING AMOUNT	
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 ("Wing Yiu") **	Establishment	PRC	PRC	N/A	35.93%*	Garment bleaching and dyeing
永義紡織(河源)有限公司 ("He Yuan") ***	Establishment	PRC	PRC	N/A	35.93%*	Garment knitting

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

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

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

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

## 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

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

## 23. INVENTORIES

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

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

## 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 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	<u>—</u>	<u>360</u>
	<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	<u>337</u>	<u>14,941</u>
	<u>9,858</u>	<u>37,110</u>

## 28. OBLIGATIONS UNDER FINANCE LEASES

## THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <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 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 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
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 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 value per share HK\$</b>	<b>Number of shares</b>	<b>Amount 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 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 HK\$ (Note 2)	Number of share options (adjusted as appropriate)				Share price at grant date of options HK\$ (Note 3)	
				At 1 April 2004	Granted during the year	Adjustment*	Lapsed during the year		At 31 March 2005
Employees	20 February 2004	20 February 2004	0.144	88,000,000	—	(88,000,000)	—	—	0.143
		to 19 August 2004 (Note 1)	0.138*	—	—	132,000,000	(132,000,000)	—	
	18 November 2004	18 November 2004 to 17 March 2005 (Note 1)	0.131	—	132,360,000	—	(132,360,000)	—	0.125



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

Grantee	Date of grant	Exercise period	Exercise price <i>HK\$</i> <i>(Note 2)</i>	Number of share options			Share price at grant date of options <i>HK\$</i> <i>(Note 3)</i>
				At 1 April 2003	Granted during the year	At 31 March 2004	
Employees	20 February 2004	20 February 2004 to 19 August 2004 <i>(Note 1)</i>	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 premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated (losses) profits <i>HK\$'000</i>	Total <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 and capital reserve and offsetting accumulated losses ( <i>Note</i> )	(1,117,131)	(895,932)	227,555	1,785,508	—
Rights issue of shares at a price of HK\$0.11 per rights share	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><u>897,186</u></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 depreciation <i>HK\$'000</i>	THE GROUP	
		Tax losses <i>HK\$'000</i>	Total <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 <i>HK\$'000</i>	2004 <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.

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<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
	<u>15</u>	<u>1,997</u>
Total consideration	<u>15</u>	<u>1,997</u>
Satisfied by:		
Cash	15	1,043
Reclassification of interest in a jointly controlled entity	—	954
	<u>15</u>	<u>1,997</u>
Net cash inflow (outflow) of cash and cash equivalents in respect of the acquisition of a subsidiary:		
Cash consideration paid	(15)	(1,043)
Bank balances and cash acquired	22	971
	<u>7</u>	<u>(72)</u>

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

## 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.

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <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 <i>HK\$'000</i>	2004 <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>(15,935)</u>
	—	(21,329)
Gain on deemed disposal of a subsidiary	<u>—</u>	<u>19,317</u>
	<u>—</u>	<u>(2,012)</u>
Represented by:		
Interests in associates - share of net liabilities	<u>—</u>	<u>(2,012)</u>
Net cash outflow of cash and cash equivalents in connection with the deemed disposal of a subsidiary:		
Bank balances and cash disposal of	<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	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bills discounted with recourse	3,441	5,719	—	—
Corporate guarantees given to banks in respect of credit facilities granted to subsidiaries	—	—	188,913	301,545
	<u>3,441</u>	<u>5,719</u>	<u>188,913</u>	<u>301,545</u>

## 39. CAPITAL COMMITMENTS

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

## 40. OPERATING LEASE ARRANGEMENTS

## The Group as lessee

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

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

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

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

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

#### The Group as lessor

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<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:

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<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	—	(61)
Net employers' contributions charged to the consolidated income statement	811	774

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

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

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

**B. PROPERTIES HELD FOR SALE**

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



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Wanchai, Hong Kong.

3 July 2006

The Board of Directors  
Easyknit International Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to Happy Light Investments Limited (“Happy Light”) for the period from 21 March 2006 (date of incorporation of Happy Light) to 31 May 2006 (the “Relevant Period”), for inclusion in the circular of Easyknit International Holdings Limited (the “Company”) dated 3 July 2006 in connection with the Company’s proposed acquisition of the entire issued share capital of Happy Light (the “Circular”).

Happy Light is principally engaged in property investment and was incorporated in the British Virgin Islands on 21 March 2006 with limited liability.

We have acted as auditors of Happy Light for the Relevant Period. The financial statements of Happy Light for the Relevant Period were prepared in accordance with accounting principles generally accepted in Hong Kong and we have carried out our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The sole director of Happy Light is responsible for preparing the audited financial statements of Happy Light. The Financial Information is based on the audited financial statements of Happy Light. No adjustments to the audited financial statements of Happy Light have been considered necessary for the purpose of this report. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to examine the Financial Information set out in this report, to form an independent opinion on the Financial Information and to report our opinion to you.

We have examined the Financial Information of Happy Light for the Relevant Period. Our examination was made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

In our opinion, the Financial Information, for the purpose of this report, and on the basis of presentation set out below gives a true and fair view of the loss and cash flows of Happy Light for the period from 21 March 2006 (date of incorporation of Happy Light) to 31 May 2006 and of the assets and liabilities of Happy Light at 31 May 2006.

## I. FINANCIAL INFORMATION

## Income statement

	<i>Notes</i>	<b>21.3.2006 to 31.5.2006 HK\$'000</b>
<b>TURNOVER</b>	3	—
<b>COST OF SALES</b>		<u>—</u>
<b>GROSS PROFIT</b>		—
<b>DISTRIBUTION COSTS</b>		—
<b>ADMINISTRATIVE EXPENSES</b>		(16)
<b>OTHER OPERATING EXPENSES</b>		<u>—</u>
<b>LOSS FROM OPERATIONS</b>		(16)
<b>FINANCE COSTS</b>		<u>—</u>
<b>NET LOSS FOR THE PERIOD</b>		<u><u>(16)</u></u>
<b>BASIC LOSS PER SHARE (HK\$)</b>	7	<u><u>(16,474)</u></u>

**Balance sheet**

	<i>Notes</i>	<b>31.5.2006</b> <i>HK\$'000</i>
<b>CURRENT ASSETS</b>		
Deposits paid for acquisition of properties	10(a)	9,570
Deposit paid for consultancy fee	10(b)	2,030
Prepayment		<u>162</u>
		<u>11,762</u>
<b>CURRENT LIABILITIES</b>		
Amount due to the sole shareholder and director	8	11,606
Accrued expenses		<u>172</u>
		<u>11,778</u>
<b>NET CURRENT LIABILITIES</b>		<u>(16)</u>
<b>SHARE CAPITAL</b>	9	—
<b>ACCUMULATED LOSSES</b>		<u>(16)</u>
<b>CAPITAL AND DEFICIT</b>		<u>(16)</u>

**Statement of changes in equity**

	<b>Share capital</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Issue of one share at US\$1.00	—	—	—
Net loss for the period	<u>—</u>	<u>(16)</u>	<u>(16)</u>
Balance at 31 May 2006	<u>—</u>	<u>(16)</u>	<u>(16)</u>

## Cash flow statements

21.3.2006  
to  
31.5.2006  
HK\$'000

**CASH FLOWS FROM OPERATING ACTIVITIES**

Loss from operations	(16)
Adjustments	—

(16)

Operating loss before movements in working capital	
Increase in deposits paid for acquisition of properties	(9,570)
Increase in deposit paid for consultancy fee	(2,030)
Increase in prepayment	(162)
Increase in accrued expenses	172

(11,606)

Cash used in operations	
Income tax paid	—

**NET CASH USED IN OPERATING ACTIVITIES**(11,606)**FINANCING ACTIVITIES**

Proceeds on issue of one ordinary share	—
Advance from the sole shareholder and director	11,606

**NET CASH FROM FINANCING ACTIVITIES**11,606**NET INCREASE IN CASH AND CASH EQUIVALENTS**

—

**CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD**

—

**CASH AND CASH EQUIVALENTS AT END OF THE PERIOD**—**ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS**

Bank balances and cash	—
------------------------	---

## II. NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL

The Company is a private limited company incorporated in the British Virgin Islands. The Company is principally engaged in property investment in Hong Kong.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention and has been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

#### (a) 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 period. 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 periods and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, 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.

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 realized. 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.

#### (b) Foreign currency translation

Transactions in foreign currencies are converted into Hong Kong dollars at the approximate rates ruling on the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted into Hong Kong dollars at the approximate rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

### 3. TURNOVER

Happy Light did not have any turnover during the Relevant Period.

**4. LOSS FROM OPERATIONS**

Loss from operations has been arrived at after charging:-

**21.3.2006**  
**to**  
**31.5.2006**  
*HK\$'000*

Auditors' remuneration

10

**5. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES****(i) Directors' remuneration**

No remuneration was paid to Happy Light's sole director during the Relevant Period and no remuneration was waived by the sole director during the Relevant Period.

**(ii) Employees' remuneration**

No remuneration was paid to employees during the Relevant Period.

**6. TAXATION**

No provision for taxation has been made as Happy Light incurred a loss for the Relevant Period.

No provision for deferred taxation has been made as the amount involved is insignificant.

**7. LOSS PER SHARE**

As only one ordinary share was in issue during the Relevant Period, the loss per share is equal to the net loss for the period.

There were no potentially dilutive shares in existence during the Relevant Period.

**8. AMOUNT DUE TO THE SOLE SHAREHOLDER AND DIRECTOR**

The amount was unsecured and interest free.

## 9. SHARE CAPITAL

31.5.2006

HK\$'000

Authorised:

50,000 ordinary shares of US\$1 each

390

Issued and fully paid:

one ordinary share of US\$1 each

—

Happy Light was incorporated on 21 March 2006 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. At the time of incorporation, one ordinary share of US\$1 each was issued, for cash at par, to the subscriber to provide the initial capital for Happy Light.

Other than the above, there were no changes in Happy Light's authorised, issued and fully paid share capital in the Relevant Period.

## 10. CAPITAL COMMITMENTS

(a) Happy Light entered into 7 sale and purchase agreements ("Formal Agreements") with 7 different vendors for the acquisition of the following properties at a total consideration of HK\$95,600,000:

- Ground Floor, 2nd Floor, 3rd Floor, 4th Floor, 5th Floor and the roof of No. 1 Victory Avenue, Kowloon
- 1st Floor, 2nd Floor, 3rd Floor and the roof of No. 1A Victory Avenue, Kowloon
- All floors of No. 3 and No. 3A Victory Avenue, Kowloon

Happy Light had paid a total deposit of HK\$9,570,000 to the vendors upon execution of the Formal Agreements. Upon completion of the Formal Agreements on 22 July 2006, Happy Light will have to pay the balance of the consideration in the sum of HK\$86,030,000 to the vendors.

(b) Happy Light entered into a consultancy agreement ("Consultancy Agreement") with Rich Era Development Limited ("Rich Era") in relation to the acquisition of all floors in the building situated at 1-3A Victory Avenue, Kowloon ("Building"). Happy Light had paid Rich Era a consultancy fee of HK\$2,030,000. Pursuant to the Consultancy Agreement, upon completion of the Formal Agreement, Happy Light will have to pay Rich Era a consultancy fee of HK\$12,134,000 and upon completion of the purchase of the remaining floors in the Building which are not subject to the Formal Agreements, Happy Light will also have to pay Rich Era HK\$6,156,000.

## 11. RELATED PARTY TRANSACTIONS

During the Relevant Period, Happy Light had no transactions with related parties.

**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of Happy Light have been prepared in respect of any period subsequent to 31 May 2006.

Yours faithfully,  
**Yuen & Tam**  
*Certified Public Accountants*  
Hong Kong



## 1. UNAUDITED PRO FORMA NET ASSETS STATEMENT

The unaudited pro forma net assets statement of the Group and Happy Light (hereinafter collectively referred to as the “Enlarged Group”) (the “Unaudited Pro Forma Net Assets Statement”) has been prepared to demonstrate the effect of the proposed acquisition of the properties located in Victory Avenue, Kowloon, Hong Kong through the acquisition of entire issued share capital of Happy Light (the “Acquisition”) on the net assets of the Group.

The Unaudited Pro Forma Net Assets Statement has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if the Acquisition had been taken place on 30 September 2005.

The preparation of the Unaudited Pro Forma Net Assets Statement is based on (1) the unaudited consolidated balance sheet of the Group as at 30 September 2005 which has been extracted from the published unaudited interim report of the Group for the six months ended 30 September 2005, (2) the audited balance sheet of Happy Light as at 31 May 2006 as extracted from the accountants’ report of Happy Light set out in Appendix II to this circular and adjusted only to reflect the pro forma adjustments described in the note thereto. Narrative description of the unaudited pro forma adjustments of the Acquisition that are directly attributable to the Acquisition, and are factually supportable, is summarised in the accompanying note.

The Unaudited Pro Forma Net Assets Statement is based on a number of assumptions, estimates and uncertainties. The accompanying Unaudited Pro Forma Net Assets Statement does not purport to describe the actual financial position of the Group that would have been attained had the Acquisition been completed on 30 September 2005. The Unaudited Pro Forma Net Assets Statement does not purport to predict the future financial position of the Enlarged Group.

The Unaudited Pro Forma Net Assets Statement should be read in conjunction with the historical financial information of the Group as set out in the published unaudited interim report of the Group for the six months ended 30 September 2005 and other financial information included elsewhere in this circular.

	The Group	Happy Light	Pro forma adjustments				Total pro forma adjustments	Pro forma total for the Enlarged Group
	As at 30 September 2005 HK\$'000 (unaudited)	As at 31 May 2006 HK\$'000 (audited)	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000 (Note c)	HK\$'000 (Note d)	HK\$'000	HK\$'000
<b>Non-current assets</b>								
Property, plant and equipment	24,395	—	—	—	—	—	—	24,395
Investment properties	557,000	—	—	—	—	—	—	557,000
Properties held under redevelopment	—	—	42,090	86,030	12,134	11,600	151,854	151,854
Club debenture	921	—	—	—	—	—	—	921
Interests in associates	65,024	—	—	—	—	—	—	65,024
	<u>647,340</u>	<u>—</u>	<u>42,090</u>	<u>86,030</u>	<u>12,134</u>	<u>11,600</u>	<u>151,854</u>	<u>799,194</u>
<b>Current assets</b>								
Properties held for sale	16,248	—	—	—	—	—	—	16,248
Investments at fair value through profit or loss	101,262	—	—	—	—	—	—	101,262
Inventories	7,764	—	—	—	—	—	—	7,764
Trade and other receivables	93,841	162	—	—	—	—	—	94,003
Deposits paid for acquisition of properties	—	9,570	—	—	—	(9,570)	(9,570)	—
Deposit paid for consultancy fee	—	2,030	—	—	—	(2,030)	(2,030)	—
Loans receivable	145,662	—	—	—	—	—	—	145,662
Bills receivable	32,792	—	—	—	—	—	—	32,792
Tax recoverable	2,051	—	—	—	—	—	—	2,051
Bank balances and cash	215,777	—	(53,680)	(86,030)	(12,134)	—	(151,844)	63,933
	<u>615,397</u>	<u>11,762</u>	<u>(53,680)</u>	<u>(86,030)</u>	<u>(12,134)</u>	<u>(11,600)</u>	<u>(163,444)</u>	<u>463,715</u>
<b>Current liabilities</b>								
Trade and other payables	(37,497)	(172)	—	—	—	—	—	(37,669)
Amount due to the sole shareholder and director	—	(11,606)	11,606	—	—	—	11,606	—
Bills payable	(7,403)	—	—	—	—	—	—	(7,403)
Tax payable	(24,438)	—	—	—	—	—	—	(24,438)
Obligations under finance leases — amount due within one year	(8)	—	—	—	—	—	—	(8)
Secured borrowings — amount due within one year	(107,572)	—	—	—	—	—	—	(107,572)
	<u>(176,918)</u>	<u>(11,778)</u>	<u>11,606</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,606</u>	<u>(177,090)</u>
<b>Net current assets (liabilities)</b>	<u>438,479</u>	<u>(16)</u>	<u>(42,074)</u>	<u>(86,030)</u>	<u>(12,134)</u>	<u>(11,600)</u>	<u>(151,838)</u>	<u>286,625</u>
<b>Total assets less current liabilities</b>	<u>1,085,819</u>	<u>(16)</u>	<u>16</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16</u>	<u>1,085,819</u>
<b>Non-current liabilities</b>								
Secured borrowings — amount due after one year	(37,994)	—	—	—	—	—	—	(37,994)
Deferred tax liabilities	(14,205)	—	—	—	—	—	—	(14,205)
	<u>(52,199)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(52,199)</u>
<b>Net assets (liabilities)</b>	<u>1,033,620</u>	<u>(16)</u>	<u>16</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16</u>	<u>1,033,620</u>

This statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group.

*Notes:*

- (a) The adjustment represents the payment of the consideration of HK\$53,680,000 for the acquisition of entire issued share capital of Happy Light with net liabilities of approximately HK\$16,000 and the assignment of the shareholder's loan of Happy Light outstanding as at 31 May 2006 amounting to approximately HK\$11,606,000.
- (b) The adjustment reflects the payment of the remaining consideration of HK\$86,030,000 to the vendors of the Properties.
- (c) The adjustment reflects the payment of the remaining consultancy fee of HK\$12,134,000 to Rich Era in connection with the acquisition of the Properties.
- (d) The adjustment represents the reclassification of the deposits paid for the acquisition of the Properties amounting to HK\$9,570,000 and the deposit paid for the relevant consultancy fee to Rich Era amounting to HK\$2,030,000 to properties held under redevelopment.

## 2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA NET ASSETS STATEMENT

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA NET ASSETS STATEMENT  
TO THE DIRECTORS OF EASYKNIT INTERNATIONAL HOLDINGS LIMITED**

We report on the unaudited pro forma net assets statement 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 proposed acquisition of the properties located in Victory Avenue, Kowloon, Hong Kong through the acquisition of entire issued share capital of Happy Light Investments Limited might have affected the financial information presented, for inclusion in Section 1 of Appendix III of the circular dated 3 July 2006 (the “Circular”). The basis of preparation of the unaudited pro forma net assets statement is set out in Section 1 of Appendix III of the Circular.

**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 net assets statement 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 Accounting Guideline 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 net assets statement 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 net assets statement 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 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 net assets statement 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 net assets statement 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 net assets statement as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma net assets statement 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 net assets statement 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 net assets statement as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

3 July 2006

## 1. WORKING CAPITAL

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

## 2. INDEBTEDNESS

At the close of business on 31 May 2006, being the latest practicable date for ascertaining this indebtedness prior to the printing of this circular, the Group had in aggregate outstanding secured import loans of approximately HK\$794,000. In addition, the Group had outstanding at that date interest payable in respect of the above import loans of approximately HK\$1,000.

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 31 May 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 31 May 2006.

## 3. FINANCIAL AND OPERATIONAL PROSPECTS OF THE GROUP

The Company and its subsidiaries are principally engaged in the sourcing and export of cotton-based knitted garments for women, children and infants, and property investment.

For the six months ended 30 September 2005, the Group recorded a turnover of approximately HK\$261,836,000, representing an increase of approximately 2.4% as compared to approximately HK\$255,711,000 for the same period last year. However, the Group's unaudited consolidated gross profits for the six months ended 30 September 2005 was approximately HK\$47,790,000, representing a decrease of approximately 21.2% as compared to approximately HK\$60,679,000 for the same period last year, primarily because of shrinking profit margins amid increasingly fierce competition in the garment sourcing and export industry.

### **Garment sourcing and export**

Although the re-imposition of the textile quotas by the US and the European Union still affects the Group's garment export business, the Directors anticipate that the garment business

of the Group will remain stable based on the existing orders on hand. Efforts are being made to promote the Group's garment brand name of "Mary Mac" targeting the fast growing PRC market through its regional office in New York. The Group will endeavour to extend its reach into other Asian markets so as to expand its sales network and to reduce our reliance on the US market.

### Property investment

The local property market is expected to be benefited from the upturn of Hong Kong's economy. With the opening of Disneyland and the extension of the "Individual Visit Scheme" for Mainland visitors, the tourism in Hong Kong will also grow steadily. These favourable 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 considerable revenue to the Group. The Group will extend its investment property portfolio when opportunities arise.

## 4. MATERIAL CHANGES

The Group has entered into the following transactions since 31 March 2005, the date to which the latest published audited financial statements of the Group were made up, which are material and not in its ordinary course of business:-

- (a) The Group disposed of two properties in the Annex Land Building of Excelsior Plaza, Causeway Bay, Hong Kong on 3 August 2005. Details of the disposal are disclosed in the circular of the Company dated 6 April 2005.
- (b) Mark Profit Development Limited ("Mark Profit"), a wholly-owned subsidiary of the Company, made an application for 34,100,000 excess rights shares of Capital Estate Limited ("Capital Estate") on 17 October 2005. Capital Estate is a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange. Mark Profit was allotted 33,286,000 excess rights shares of Capital Estate at HK\$1.00 each, representing approximately 12.67% of the enlarged issued share capital of Capital Estate on 20 October 2005. Details of the application are disclosed in the circular of the Company dated 14 November 2005.
- (c) The Company conducted a rights issue of not less than 661,836,693 rights shares of HK\$0.10 ("Rights Shares") each at HK\$0.12 per Right Share on the basis of one Right Share for every two Shares held. Details of the rights issue are disclosed in the Company's announcements dated 8 March 2006 and 24 April 2006 and the Company's circular dated 3 April 2006.

Save as disclosed above, the Directors are not aware as at the Latest Practicable Date of any material adverse change in the financial or trading position or prospect of the Group since 31 March 2005, the date to which the latest published audited financial statements of the Group were made up.

## 5. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION OF HAPPY LIGHT

Happy Light was incorporated on 21 March 2006 in British Virgin Islands and the sole purpose of its incorporation was to hold the Properties subject to the Formal Agreements. Other than entering into the Formal Agreements, Happy Light does not have any business activities.

Based on the unaudited management accounts of Happy Light, as at 31 May 2006, its net liabilities was HK\$6,466.24. The current assets was approximately HK\$11,762,000 which consisted of deposit paid under the Formal Agreements, consultancy fees paid to Rich Era and legal fees payable regarding the Formal Agreements. The current liabilities consisted of shareholders' loan of HK\$11,606,466.24.

The Directors consider that there will be no effect on the principal business of the Group subsequent to the acquisition of Happy Light.



## A.G. WILKINSON &amp; ASSOCIATES

韋 堅 信 測 量 師 行

(A division of A. G. Wilkinson &amp; Associates (Surveyors) Limited)

Unit 2701, 27/F, The Center, 99 Queen's Road Central, Hong Kong.

Tel: 2521-6467 Fax: 2845-2642, 2804-6352 E-mail: e@agw.com.hk

SINCE 1971



June 15, 2006

Our Ref: 06/VT/01214

The Directors  
Easyknit Properties Holdings Ltd.  
7/F, Hong Kong Spinners Industrial Building (Phase 6)  
481-484 Castle Peak Road  
Cheung Sha Wan  
Kowloon

Dear Sirs,

Re: G/F, 2/F, 3/F, 4/F, 5/F and the Roof of 1 Victory Avenue, Kowloon  
1/F to 3/F and the Roof of 1A Victory Avenue, Kowloon; and  
3 and 3A Victory Avenue, Kowloon  
“the subject property”

In accordance with your instructions for us to value the above property, we confirm that we have carried out appropriate inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at June 12, 2006.

Our valuations of the property interests are our opinion of the market value of each of the concerned properties as defined in the HKIS Valuation Standards On Properties as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

For the vacant properties, we have adopted the Comparison Method of Valuation which is considered to be most appropriate for valuing owner-occupied or vacant premise. The Comparison Method of Valuation seeks to derive the market value of a property interest by comparing and making reference to the transaction prices, and asking prices if relevant, of similar type properties at similar locations. Adjustments of the transaction prices obtained may, in cases, be necessary to reflect the differences in building age, view, floor level, design and layout, etc. This valuation technique is to arrive at the adjusted unit rate of the property interest, upon which the valuation will be made.

For the leased properties, we have adopted the Investment Method of valuation and it is done on the basis of capitalization of net rental incomes derived from the existing tenancies with due allowance for reversionary income potential of the property interest.

Our valuations have been made on the assumption that the owner sells the property interests on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of such property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

We have caused searches to be made at the appropriate Land Registries. However, we have not searched the original documents to verify ownership or to ascertain any lease amendments. All documents and leases have been used as reference only and all dimensions, measurements and areas are approximate. Unless otherwise stated, the conversion factor of 1 square metre to 10.764 square feet is adopted.

We have relied to a very considerable extent on the information given by the instructing party and have accepted advice given to us on such matters as planning approvals or statutory notices, age of buildings, identification of properties, easements, tenure, occupation, tenancy particulars, floor areas, floor plans and all other relevant matters. We have verified the information independently to the extent flat we have performed our due diligence within our professional capacity. We have also been advised by the instructing party that no material facts have been omitted from the information provided.

Whilst we have carried out inspection, either internally or externally or both, of the property, we have not carried out a structural survey and it was not possible to inspect the wood work and other parts of the structure which were covered, unexposed or inaccessible. We are therefore, unable to report that the property is free from any structural defects.

We have been provided with a summary schedule showing tenants' particulars and photocopies of the related tenancy agreements. We have not searched the original documents or to ascertain any amendments to these documents. We have no reason to doubt the truth and accuracy of the information provided to us by the instructing party. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards On Properties (1st Edition 2005), the relevant provisions in the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange Of Hong Kong Limited (Main Board).

We attach herein our Summary of Valuation and Valuation Certificate.

Yours faithfully,

For and on behalf of

**A.G. WILKINSON & ASSOCIATES**

**Lam Chun Chiu Ringo**

*Registered Professional Surveyor (GP)*

*BSc(Hons) MCIREAA, MHKIS, MRICS*

*Director*

*Valuation Department*

*RL/RH/mt*

*Note:* Mr. Lam Chun Chiu Ringo is a Registered Professional Surveyor in the Hong Kong Special Administration Region. He is a professional member of three professional bodies, namely the China Institute of Real Estate Appraisers and Agents, Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors. Mr. Lam joined A.G. Wilkinson & Associates since 1995 and he has about 15 years of post-qualification experience in valuing properties in Hong Kong.

## SUMMARY OF VALUES

<b>Property</b>	<b>Market Value as at June 12, 2006</b>
G/F, 2/F, 3/F, 4/F, 5/F and the Roof of 1 Victory Avenue, Kowloon; 1/F to 3/F and the Roof of 1A Victory Avenue, Kowloon; and 3 and 3A Victory Avenue, Kowloon	HK\$80,500,000

*Note:* The subject property was valued at HK\$80,500,000 (EIGHTY MILLION AND FIVE HUNDRED THOUSAND HONG KONG DOLLARS) by External Valuer, A. G. Wilkinson & Associates (Surveyors) Ltd., as at June 12, 2006, on the basis of Market Value, in accordance with the HKIS Valuation Standards on Properties (1st Edition 2005), the relevant provisions in the Companies Ordinance and the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited (Main Board).

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at June 12, 2006
G/F, 2/F, 3/F, 4/F, 5/F and the Roof of 1 Victory Avenue, Kowloon; 1/F to 3/F and the Roof of 1A Victory Avenue, Kowloon; and 3 and 3A Victory Avenue, Kowloon	The property forms 16 residential units and 2 garages in 2 blocks of 6-storey tenement buildings which were completed on May 17, 1958.  The total saleable area of the subject property is listed as follows:-  <u>1 Victory Avenue</u>	The property (except 2/F & 5/F, 1 Victory Avenue, 1/F, 1A Victory Avenue and 1/F, 2/F and 4/F, 3 Victory Avenue) is currently let to various third parties with tenancy agreements at an aggregate monthly rental of HK\$126,000 with the latest tenancy expiring on December 31, 2007.	HK\$80,500,000
8/10 shares of and in Kowloon Inland Lot No. 1344 and the whole of Kowloon Inland Lot No. 1343.	<b>Saleable Area</b>		
	<b>Floor</b>	<i>(sq.ft.)</i>	<i>(sq.m.)</i>
	G/F (Garage)	511	47.47
	2/F	860	79.90
	3/F	860	79.90
	4/F	860	79.90
	5/F	860	79.90
	Sub-total:	<u>3,951</u>	<u>367.07</u>
	<u>Ancillary Areas</u>		
	Top roof	757	70.3
	Yard on G/F	156	14.5
	- or thereabouts -		
	<u>1A Victory Avenue</u>		
	<b>Saleable Area</b>		
	<b>Floor</b>	<i>(sq.ft.)</i>	<i>(sq.m.)</i>
	1/F	717	66.61
	2/F	717	66.61
	3/F	717	66.61
	Sub-total:	<u>2,151</u>	<u>199.83</u>
	<u>Ancillary Areas</u>		
	Extension on 1/F	105	9.8
	Extension on 2/F	105	9.8
	Top roof	720	66.9
	- or thereabouts -		

Property	Description and Tenure	Particulars of Occupancy	Market Value as at June 12, 2006
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3 Victory Avenue

Floor	Saleable Area	
	(sq.ft.)	(sq.m.)
B/F	505	46.92
G/F	788	73.21
1/F	890	82.68
2/F	890	82.68
3/F	890	82.68
4/F	860	79.90
Sub-total:	<u>4,823</u>	<u>448.07</u>

Ancillary Areas

Yard on B/F	156	14.5
Yard on G/F	161	15
Top roof	580	53.9

- or thereabouts -

3A Victory Avenue

Floor	Saleable Area	
	(sq.ft.)	(sq.m.)
G/F	747	69.40
1/F	747	69.40
2/F	747	69.40
3/F	717	66.61
Sub-total:	<u>2,958</u>	<u>274.81</u>

Ancillary Areas

Yard on G/F	305	28.4
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- or thereabouts -

<b>Total:</b>	<u>13,883</u>	<u>1,289.78</u>
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(Saleable area excluding yard,  
extensions and flat roof)

Property	Description and Tenure	Particulars of Occupancy	Market Value as at June 12, 2006
	<p>The property is held from the government under government lease for a lease term of 75 years from December 1, 1913, renewable for a further term of 75 years. The government rent per annum are HK\$18,836 (KIL 1344) and HK\$17,224 (KIL 1343) respectively.</p> <p>The property is currently zoned for residential use (i.e. Residential Group A) with regard to town planning. There is no option or rights of pre-emption materially affecting the property.</p>		

*Note:-*

1/ Pursuant to nine (9) sets of land title searches, the registered owners of the concerned properties are as follows:-

Premises	Registered Owner	Share	Memorial No.	Date of Instrument
Ground Floor (Garage)				
No. 1 Victory Avenue	Koostrong Limited	1/10	UB3349481	Mar 27, 1987
1st Floor No. 1A Victory Avenue	Fung Siu Tong	1/10	UB1368954	Apr 4, 1977
2nd Floor No. 1 Victory Avenue	Right Crown Investments Limited	1/10	UB5028346	Sept 30, 1991
2nd Floor No. 1A Victory Avenue	Right Crown investments Limited	1/10	UB4004872	Feb 27, 1989
3rd Floor No. 1 Victory Avenue	Yin Fook Investment Limited	1/10	UB6086497	Jun 30, 1994
3rd Floor and Roof				
No. 1A Victory Avenue	Right Crown Investments Limited	1/10	UB5324239	May 28, 1992
4th Floor No. 1 Victory Avenue	Wong Chang Chi	1/10	UB278293	Jun 2, 1958
5th Floor and Roof				
No. 1 Victory Avenue	Ng Chau Tung Robert	1/10	UB3858164	Sept 12, 1988
Nos. 3 & 3A Victory Avenue	Pearline Development Limited		UB6086498	Jun 30, 1994

2/ The concerned property (i.e. 5th Floor and Roof of No. 1 Victory Avenue) is subject to a legal charge in favour of “Wing Hang Bank Limited” vide Memorial No. UB8732474 dated June 20, 2002.

3/ In considering the market value of the property, we have also included the “hope value” associated with the existing properties. The hope value refers to the situation that one has an expectation that the circumstances affecting the subject property may have a positive change in the future. In this case, we have reflected the prospect of having re-development opportunity for the subject lot where permission has not yet been granted. The amount of hope value has been limited to the extent that it has been reflected in offers made by prospective purchasers in the general market.

4/ On re-development valuation basis, if the developer had successfully acquired the remaining two (2) residential units and obtained vacant possession of all the units, the market value will be increased to that of a cleared site value being assessed to be in the sum of HK\$210,000,000. Subject to detailed feasibility study and site investigation, a composite building with shop units on G/F to 1/F, car parking space on 2/F to 3/F and residential flats on upper floors can be developed on the cleared site. The site has a registered site area of 5,001 square feet. The total gross floor area of the composite building is about 42,342 square feet, with a plot ratio of 8.4667, representing an accommodation value of HK\$4,960 per square feet. The component part of the residual valuation as at June 2, 2006 is approximately as such that:-

- (i) Gross Development Value — HK\$342,800,000
- (ii) Construction Cost — HK\$51,600,000
- (iii) Developer's Profit — HK\$34,300,000
- (iv) Professional Fees — HK\$3,100,000
- (v) Contingency, Agency and Legal Fees — HK\$4,980,000
- (vi) Finance Charges — HK\$3,870,000
- (vii) Cleared Site Value — HK\$210,000,000

Under a separate instruction from the Easyknit Properties Holdings Ltd., we have prepared another valuation report dated June 2, 2006 to assess the cleared site value of the lots on re-development basis for their internal use. A photocopy of the report is available for public inspection at the Valuer's or Easyknit's registered address.



## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular 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 contained in this circular misleading.

## 2. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to bye-law 70 of the bye-laws of the Company, a poll may be demanded at any general meeting (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll):-

- (i) by the Chairman of the meeting; or
- (ii) by at least three Shareholders present in person or by duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any Shareholder or Shareholders present in person or by duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (iv) by any Shareholder or Shareholders present in person or by duly authorised corporate representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

If a poll is demanded as aforesaid, it shall (apart from the election of a chairman of a meeting of Shareholders or on any question of adjournment which shall be taken at the meeting and without adjournment) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was demanded, as the chairman presiding at the meeting of Shareholders directs. No notice need to be given of a poll not taken immediately. The result of a poll shall be deemed to be the resolution of the meeting at which the poll is demanded. The demand for a poll may be withdrawn, with the consent of the chairman of the meeting, at any time before the close of the meeting at which the poll is demanded or the taking of the poll, whichever is earlier.

## 3. 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

##### *Interests in Shares*

Name of Director	Nature of interest	Number of issued Shares (long position)	Approximate percentage of interest
Lui Yuk Chu ( <i>Note</i> )	Beneficiary of a trust	729,487,017	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).

#### B. Interests in associated corporations

##### 1. *Asia Alliance*

Name of Director	Nature of interest	Number of shares (long position)	Approximate percentage of interest
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)*

Name of Director	Nature of interest	Number of non-voting deferred share (long position)	Approximate percentage of interest
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.

## 4. 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:

**Interests in Shares**

<b>Name of Substantial Shareholder</b>	<b>Nature of interest</b>	<b>Number of issued Shares (long position)</b>	<b>Approximate percentage of interest</b>
Koon Wing Yee ( <i>Note a</i> )	Interest of spouse	729,487,017	36.74%
Magical Profits ( <i>Notes a &amp; b</i> )	Beneficial owner	729,487,017	36.74%
Accumulate More Profits Limited ( <i>Notes a &amp; b</i> )	Interest of controlled corporation	729,487,017	36.74%
Trustcorp Limited ( <i>Notes a &amp; c</i> )	Trustee	729,487,017	36.74%
Newcorp Ltd. ( <i>Note c</i> )	Interest of controlled corporation	729,487,017	36.74%
Newcorp Holdings Limited ( <i>Note c</i> )	Interest of controlled corporation	729,487,017	36.74%
David Henry Christopher Hill ( <i>Note c</i> )	Interest of controlled corporation	729,487,017	36.74%
David William Roberts ( <i>Note c</i> )	Interest of controlled corporation	729,487,017	36.74%
Rebecca Ann Hill ( <i>Note c</i> )	Interest of spouse	729,487,017	36.74%

*Notes:*

- (a) The 729,487,017 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 729,487,017 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 729,487,017 Shares by virtue of the SFO.

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.

## 5. 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 circular and are or may be material:

- (a) 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;
- (b) 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 (a) above);
- (c) 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 (a) above);
- (d) 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;
- (e) 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 (d) above);
- (f) 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 (d) above);

- (g) 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);
- (h) underwriting agreement dated 7 March 2006 entered into between the Company and Get Nice Investment Limited in relation to the underwriting and certain other arrangement in respect of a rights issue of the Company;
- (i) the Acquisition Agreement;
- (j) the Formal Agreements; and
- (k) the Consultancy Agreement.

## 6. MATERIAL ADVERSE CHANGE

The Directors are of the opinion that 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 consolidated accounts of the Group were made up.

## 7. LITIGATION

As at the Latest Practicable Date, there was no litigation or claims of material importance pending or threatened against any member of the Group.

## 8. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who have been named in this circular or have given opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Deloitte Touche Tohmatsu	Certified Public Accountants
Yuen & Tam	Certified Public Accountants
A. G. Wilkinson & Associates	Professional Surveyors and Valuers

Each of Deloitte Touche Tohmatsu, Yuen & Tam and A. G. Wilkinson & Associates has given and has not withdrawn its written consent to the issue of the circular with the inclusion herein of its letter or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Deloitte Touche Tohmatsu, Yuen & Tam nor A. G. Wilkinson & Associates had 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.

None of Deloitte Touche Tohmatsu, Yuen & Tam nor A. G. Wilkinson & Associates had 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 Group were made up) been acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group.

## 9. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group.

## 10. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## 11. GENERAL

- (a) The secretary of the Company is Mr. Chan Po Cheung, a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.
- (b) The qualified accountant of the Company is Mr. Chan Po Cheung, a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda and the principal place of business of the Company in Hong Kong is at Unit A, 7 Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong.
- (e) The English text of this circular and the accompanying form of proxy prevails over the Chinese text in the case of inconsistency.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business in Hong Kong of the Company 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 19 July 2006:-

- (a) the letter from Deloitte Touche Tohmatsu, the text of which is set out on pages 98 to 99 in this circular;
- (b) the written consent from Deloitte Touche Tohmatsu referred to in paragraph 8 of this appendix;
- (c) the letter from Yuen & Tam, the text of which is set out on pages 87 to 94 in this circular;
- (d) the written consent from Yuen & Tam referred to in paragraph 8 of this appendix;
- (e) the valuation reports from A. G. Wilkinson & Associates, the text of which is set out on pages 103 to 110 in this circular;
- (f) the written consent from A. G. Wilkinson & Associates referred to in paragraph 8 of this appendix;
- (g) the Company's Bye-Laws;
- (h) the circular of the Company dated 6 April 2005 regarding a very substantial disposal of the Company;
- (i) the circular of the Company dated 14 November 2005 relating to a discloseable transaction of the Company;
- (j) the circular of the Company dated 3 April 2006 regarding the rights issue of the Company;
- (k) the unaudited interim report of the Company for the six months ended 30 September 2005;
- (l) the annual reports of the Company for each of the two years ended 31 March 2004 and 31 March 2005; and
- (m) the material contracts referred to in the section headed "Material Contracts" in this appendix.





**EASYKNIT INTERNATIONAL HOLDINGS LIMITED**

**永義國際集團有限公司\***

*(incorporated in Bermuda with limited liability)*

**Stock Code: 1218**

NOTICE IS HEREBY GIVEN that a special general meeting of Easyknit International Holdings Limited (“Company”) will be held on 19 July 2006 at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution:-

**ORDINARY RESOLUTION**

**“THAT:-**

- 1) the agreement dated 6 June 2006 entered into between Ng Chi Keung and Easyknit Properties Holdings Limited (the “Acquisition Agreement”);
- 2) the transactions contemplated under the Acquisition Agreement; and
- 3) the proposed acquisition of the whole building situated at 1, 1A, 3 and 3A Victory Avenue, Kowloon, the details of which are stipulated in the Company’s circular dated 3 July 2006, for a total consideration of no more than HK\$170 million;

be and are hereby approved, confirmed and ratified; and that the directors of the Company are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection therewith.”

By Order of the Board  
**Easyknit International Holdings Limited**  
**Tse Wing Chiu, Ricky**  
*President and Chief Executive Officer*

Hong Kong, 3 July 2006.

\* For identification only

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## NOTICE OF THE SGM

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*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

**Notes:**

1. Any shareholder of the Company entitled to attend and vote at the meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend the such occasion. A proxy need not be a shareholder of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.
3. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the Company's principal place of business in Hong Kong at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting and in default the instrument of proxy shall not be treated as valid.
4. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting or upon the poll concerned and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint holders of any share, any one of such persons may vote at any meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
6. A form of proxy for use at the SGM is enclosed herewith.