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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of 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 Asia Alliance Holdings Limited, you should at once hand this circular and the accompanying 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 transferee.

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## **Asia Alliance Holdings Limited**

**亞洲聯盟集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 616)**

### **VERY SUBSTANTIAL ACQUISITION**

### **FURTHER SUPPLEMENTAL AGREEMENT IN RELATION TO THE PROJECT**

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A notice convening the SGM of the Shareholders to be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 9:00 a.m. on Monday, 9 January 2006 is set out on pages 85 to 86 of this circular. If you are not able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

\* *for identification only*

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## DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Property pursuant to the Agreement and the Supplemental Agreement
“Agreement”	the agreement dated 24 December 2004 entered into between the Vendor and the Subsidiary in respect of the Transaction as amended by the Supplemental Agreement
“Announcement”	the announcement of the Company dated 3 January 2005 in respect of the entering into the Agreement relating to the Project
“Board”	the board of Directors
“Capital Commitment”	the capital commitment of the Subsidiary of approximately RMB519 million (about HK\$499 million) in respect of the Project pursuant to the Further Supplemental Agreement
“Circular”	the circular of the Company dated 21 February 2005, containing, inter alia, the details of the Agreement (as supplemented by the Supplemental Agreement) and the Project
“Company”	Asia Alliance Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Construction”	the construction of the Plant
“Director(s)”	the director(s) of the Company
“Further Supplemental Agreement”	the supplemental agreement dated 25 November 2005 entered into between the Vendor and the Subsidiary varying certain terms in the Agreement as amended by the Supplemental Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of PRC

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## DEFINITIONS

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“Independent Third Party(ies)”	any person(s) who and whose ultimate beneficial owner(s) are independent of and not connected to the Company, any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates (as defined in the Listing Rules) and is not a connected person of the Company (as defined in the Listing Rules)
“Latest Practicable Date”	19 December 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Plant”	waste water treatment plant to be built on the Property
“PRC” or “China”	The People’s Republic of China (other than, for the purpose of this circular only, Hong Kong, the Macau Special Administrative Region of PRC and Taiwan)
“PRC Entities”	three wholly owned foreign enterprises incorporated in PRC and held by the Subsidiary for the purposes of holding different assets in connection with the development of the manufacturing operations under the Project, and the aggregate registered capital of which is US\$64,000,000 (about HK\$499 million)
“Project”	the Acquisition, the proposed development of manufacturing operations in Huzhou City, Zhejiang Province, PRC on the Property to be held through the PRC Entities, including garment manufacturing, bleaching and dyeing and knitting and the Construction
“Property”	the land situate at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC and the South of Hengtang Harbour, PRC
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	a special general meeting of the Company to be held to approve, among other things, the Further Supplemental Agreement
“Share(s)”	ordinary share(s) of the Company of HK\$0.01 each

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## DEFINITIONS

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“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	Easyknit (Mauritius) Limited, a company incorporated in the Republic of Mauritius and a wholly owned subsidiary of the Company
“Supplemental Agreement”	the supplemental agreement dated 28 December 2004 entered into between the Vendor and the Subsidiary varying certain terms in the Agreement
“Transaction”	phase 1 of the Project, prior to the Further Supplemental Agreement, in Huzhou City, Zhejiang Province, PRC which was intended to include the Acquisition, the Construction and the setting up of manufacturing operations initially comprising garment manufacturing, bleaching and dyeing capabilities
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendor”	The People’s Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC
“%”	per cent

In this circular, the exchange rates of HK\$1.00 to RMB1.04 and HK\$7.80 to US\$1.00 are adopted for illustration purpose only.



**Asia Alliance Holdings Limited**

**亞洲聯盟集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 616)**

*Executive Directors:*

Koon Wing Yee (*Chairman and  
Chief Executive Officer*)  
Tse Wing Chiu Ricky (*Vice Chairman*)  
Lui Yuk Chu

*Principal place of business in Hong Kong:*

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

*Independent Non-Executive Directors:*

Kan Ka Hon  
Kwong Jimmy Cheung Tim  
Lau Sin Ming

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

22 December 2005

*To the Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION**

**FURTHER SUPPLEMENTAL AGREEMENT  
IN RELATION TO THE PROJECT**

**INTRODUCTION**

On 3 January 2005, the Company made an announcement in relation to the Project, which was divided into two phases. Phase 1 of the Project, namely the Transaction, was intended to include: (i) the acquisition of the Property; (ii) the development of the manufacturing operations on the Property which would initially comprise garment manufacturing and bleaching and dyeing capabilities; and (iii) the construction of the Plant. Phase 2 of the Project was intended to principally comprise the development of knitting capability on the Property, which would commence construction upon completion of phase 1. Further details of the Project are set out in the Announcement and the Circular.

\* *for identification only*

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## LETTER FROM THE BOARD

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At the special general meeting of the Company held on 11 March 2005, the Transaction which involved investment of up to HK\$200 million was approved.

On 30 November 2005, the Board announced that the Further Supplemental Agreement was entered into between the Vendor and the Subsidiary in respect of certain material changes to the Project.

One of the material changes to the Project is that the capital commitment of the Project has increased from HK\$40 million as stated in the Announcement and the Circular to approximately RMB519 million (about HK\$499 million). The Capital Commitment constitutes a very substantial acquisition of the Company, where the approval by the Shareholders at the SGM is required pursuant to Rule 14.49 of the Listing Rules. To the best of knowledge of the Directors, as at the Latest Practicable Date, no Shareholder has any material interest in the Project. Therefore, no Shareholder and its associates will be required to abstain from voting at the SGM.

The purpose of this circular is to give you further information regarding the Further Supplemental Agreement and to give you the notice of the SGM and other information required under the Listing Rules.

### **THE FURTHER SUPPLEMENTAL AGREEMENT DATED 25 NOVEMBER 2005**

On 25 November 2005, the Vendor and the Subsidiary entered into the Further Supplemental Agreement, pursuant to which the following changes, among other things, have been made to the Project:

#### **Size of the Property**

As disclosed in the annual report of the Company for the financial year ended 31 March 2005, subsequent to the Announcement and the Circular, in April 2005, the Vendor and the Company agreed that the size of the Property be reduced from about 670 mu to about 632 mu. The Directors confirm that the reason for the reduction in the size of the Property was because the sections reduced were deemed not suitable for the manufacturing operations of the Group. The price per mu of the Property remains at RMB15,000 (equivalent to approximately HK\$14,423 per mu). Therefore, the consideration for the Acquisition is reduced from approximately RMB10.1 million (equivalent to approximately HK\$9.7 million) to approximately RMB\$9.5 million (equivalent to approximately HK\$9.1 million) accordingly. The consideration for the Acquisition has been fully paid on 7 April 2005.

#### **Capital Commitment of the Project**

It was previously stated in the Circular that the Project would be divided into two phases and the investment in phase 1 was expected to be up to HK\$200 million. Furthermore, the Subsidiary has made capital commitment of HK\$40 million previously in respect of the Acquisition and the Construction, of which an aggregate of approximately HK\$25.7 million has been paid as at the Latest Practicable Date. For details, please refer to the section headed "Funding" of this circular.

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## LETTER FROM THE BOARD

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Save as the above, the total investment of the Project (being phase 1 and phase 2) was not determined previously and no commitment has been made in respect of other parts of the Project. Under the Further Supplemental Agreement, the capital commitment of the Subsidiary in respect of the Project has been agreed to be approximately RMB519 million (about HK\$499 million), which has been determined based on arm's length negotiation with the Vendor and by reference to the approval granted to, in effect, the Vendor by the Huzhou Municipal Economic Commission, Zhejiang Province, PRC on 8 November 2005 in respect of the Project.

The approval is granted for the estimated total investment amount of approximately RMB519 million and if such amount is to be exceeded in future, the Vendor and the Subsidiary are required to obtain further approval from the relevant authority. In such event, the Company will obtain further approval from Shareholders as required under the Listing Rules. The final capital to be invested in the Project is subject to adjustments within the Capital Commitment, depending on the development of the Project and market conditions. The Group's investment in phase 1 is expected to be approximately RMB301.0 million (about HK\$289.4 million) compared with the HK\$200 million previously estimated.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiry, the Vendor and its ultimate beneficial owner(s) are Independent Third Parties.

### RECENT PROGRESS OF THE PROJECT

Land of about 184 mu comprised in the Property was transferred to the Group by the Vendor on 12 August 2005. The certificate of land use right was issued on 17 October 2005. It is expected that land of about 193 mu and the remaining land comprised in the Property will be transferred to the Group by 31 December 2005 and 30 June 2006 respectively. The Directors confirm that the reason for the transfer of land in stages is to be in line with the recent PRC government policy on land supply.

Construction work for phase 1 of the Project has commenced in November 2005 and the Vendor has been appointed as an agent to handle the various matters in relation to the construction of the Plant. It is expected that completion of phase 1 of the Project will take place in approximately 18 months from its commencement, which is expected to be around mid-2007. Capital injection for phase 2 of the Project will commence upon completion of phase 1. As at the date hereof, the Property has not generated any revenue nor profit.

It was previously stated in the Circular that phase 1 of the Project, which was originally expected to be completed by early 2006, involved the Acquisition, the Construction and the development of manufacturing operations which would initially comprise garment manufacturing and bleaching and dyeing capabilities. Phase 2 of the Project was originally intended to commence construction upon completion of phase 1 and the development of knitting capability, which was previously expected to be completed by the end of 2006, would form phase 2 of the Project.

As disclosed above, land comprising the Property is now being transferred in stages to the Subsidiary, which inevitably delays the construction of phase 1 of the Project. After taking into consideration the previously intended timeline for the development of phase 2, the scope of phase 1

## LETTER FROM THE BOARD

of the Project has been amended to also include the development of knitting capability, comprising, among others, equipment and machinery, factories, employee quarters and storages in order for the Group to fully benefit from the vertical integration as described under the section headed “Financial and trading prospects of the Group” below.

### IMPLICATIONS UNDER THE LISTING RULES

The Shareholders had approved the Transaction which involves investment of up to HK\$200 million at the special general meeting of the Company held on 11 March 2005. As a result of the Further Supplemental Agreement, there have been material changes in the terms of the Project including the increase in the Group’s aggregate investment amount of the Project. The Further Supplemental Agreement is therefore subject to approval by the Shareholders.

The Capital Commitment constitutes a very substantial acquisition of the Company, where the approval by the Shareholders at a special general meeting is required pursuant to Rule 14.49 of the Listing Rules. To the best knowledge of the Directors, as at the Latest Practicable Date, no Shareholder has material interests in the Project. Therefore, no Shareholder and its associates will be required to abstain from voting at the SGM in respect of the Capital Commitment.

### FUNDING

For its commitment to phase 1 of the Project of approximately RMB301.0 million (about HK\$289.4 million), the Company has made aggregate payments of approximately HK\$25.7 million as at the Latest Practicable Date, which include (a) the consideration for the Acquisition of approximately HK\$9.1 million; (b) the deposit for the Construction of HK\$15.0 million; and (c) the remaining of approximately HK\$1.6 million as other expenses.

The funding arrangements of the Project for the periods from 1 December 2005 to 31 March 2006 and from 1 April 2006 to 31 March 2007 are expected to be as follows:

	<b>1 December 2005 —</b>		<b>1 April 2006 —</b>	
	<b>31 March 2006</b>		<b>31 March 2007</b>	
	<b>RMB</b>	<b>HK\$</b>	<b>RMB</b>	<b>HK\$</b>
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>
Land cost and related expenses <sup>1</sup>	3.2	3.1	—	—
Construction of production plants	10.9	10.5	80.7	77.6
General preparation costs <sup>2</sup>	2.0	1.9	20.9	20.1
Machineries and installation costs	—	—	79.9	76.8
PRC tax refund to the Subsidiary on the 80% land acquisition tax paid or to be paid	—	—	(1.6)	(1.5)
<b>Total</b>	<u>16.1</u>	<u>15.5</u>	<u>179.9</u>	<u>173.0</u>

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## LETTER FROM THE BOARD

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*Notes:*

1. Land cost and related expenses include taxation and site development fee payable to the PRC government.
2. General preparation costs include professional fees, site clearance fee and deposit for the Construction.

The arrangement of the remaining capital commitment of approximately HK\$284.8 million, after deducting the aggregate payments of approximately HK\$25.7 million made by the Company as at the Latest Practicable Date and the capital commitment of approximately HK\$15.5 million and HK\$173.0 million for the four months ending 31 March 2006 and the year ending 31 March 2007 respectively, will be subject to the progress and development of the Project.

The Company intends to finance its remaining capital commitment of approximately HK\$473.3 million, after deducting the aggregate payments of approximately HK\$25.7 million made by the Company as at the Latest Practicable Date, through internal resources, bank borrowings or other forms of financing available to the Group. As at the Latest Practicable Date, the Group had cash and bank balances of approximately HK\$109.1 million. The Company is currently in negotiation with banks for additional facilities and may also explore other forms of capital market financing available to the Group such as placing of securities and issue of convertible securities. As at the Latest Practicable Date, the Company had not entered into any financing arrangement in respect thereof.

### **FINANCIAL EFFECTS OF THE CAPITAL COMMITMENT ON THE GROUP**

There will not be any impact on the assets and liabilities of the Group arising from phase 1 of the Project based on financial resources committed under the Further Supplemental Agreement. The payment of approximately HK\$25.7 million for the acquisition of the Property and the deposit paid for the Construction was financed by bank loans, which was subsequently repaid by the net proceeds from the rights issue of the Company in September 2005. The total assets of the Group as at 30 September 2005 as stated in the interim report of the Company for the six months ended 30 September 2005 have already reflected the payment of approximately HK\$25.7 million for acquisition of the Property and the deposit paid for the Construction. As at 30 September 2005, the Group did not have any bank loan.

The Further Supplemental Agreement does not entail the acquisition of any new assets as the Property is the same asset referred to in the Acquisition. Save as disclosed herein, there is no material change to the Property and the Acquisition. Therefore, a valuation report on the enlarged Group's interests in land or building as required under Rule 14.69(3) of the Listing Rules will not be applicable to the Capital Commitment.

As at the Latest Practicable Date, no revenues have been generated by the Property and the Plant. There was no profit and loss statement prepared on the Property or the Plant for the three preceding financial years, including the year ended 31 December 2002, the 15 months ended 31 March 2004 and the year ended 31 March 2005, as required under Rule 14.69(4)(b)(i) of the Listing Rules. In addition, save for the Property, the Group has not acquired any other material assets that have an identifiable income stream or assets valuation as at the Latest Practicable Date. As the interim report of the

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## LETTER FROM THE BOARD

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Company for the six months ended 30 September 2005 has already reflected the payment of approximately HK\$25.7 million for the acquisition of the Property and the deposit paid for the Construction, a pro forma net asset statement on the enlarged Group as required under Rule 14.69(4)(b)(ii) will not be applicable to the Capital Commitment.

### FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the businesses of bleaching, dyeing and knitting.

As stated in the interim report of the Company (“**Interim Report**”) for the six months ended 30 September 2005 (the “**Period**”), the Group recorded a turnover of approximately HK\$26.9 million, representing an increase of approximately 22.2% from the same period last year. Gross profit dropped approximately 42.9% to approximately HK\$2.0 million (six months ended 30 September 2004: approximately HK\$3.5 million). Net loss attributable to Shareholders for the Period amounted to approximately HK\$18.9 million as compared to the net profit of approximately HK\$6.2 million for the same period in 2004. The Directors attributed such loss to the impairment loss recognised in respect of goodwill of approximately HK\$12.4 million as well as increase in cost of sales and services, operating expenses and finance costs. The cost of sales and services rose by approximately 34.4% to approximately HK\$24.9 million (six months ended 30 September 2004: approximately HK\$18.5 million), primarily due to the growth in sales, increase in depreciation costs on fixed assets and upsurge in production costs such as staff wages and prices of other raw materials.

The bleaching and dyeing business continued to be the principal business of the Group and contributed to approximately 99.4% of the Group’s total turnover for the Period, whereas the knitting business of the Group accounted for the remaining approximately 0.6% of the total turnover of the Group.

As stated in the Interim Report, the Group with its bleaching and dyeing factory as well as knitting mill located in the Pearl River Delta Region continues to be affected by the adverse impact of shortage of skilled labour. The Directors are of the view that this will not only result in increased salaries and wages, but also high labour turnover and reduced production efficiency. The rising energy costs are likely to reduce the profit margins of the Group.

The Group will use its best endeavour to improve its cost and inventory control measures in order to mitigate the impact of any price increases in raw materials. Measures are being devised to attract and retain workers and to combat rising production costs.

The Company believes that the Project will: (i) consolidate and significantly increase its manufacturing capabilities by developing vertically integrated operations ranging from knitting, bleaching and dyeing and garment manufacturing, which in turn provides further economy of scale; (ii) help minimise cost and maximise efficiency by taking advantage of the inexpensive land price and low cost base, including low labour costs, in Huzhou; and (iii) enhance its working relationship and cooperation with the Vendor which will assist in the smooth running of its operation, including the provision of infrastructure support.

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## LETTER FROM THE BOARD

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The Directors believe that the terms of the Further Supplemental Agreement are fair and reasonable and are in the interests of the Shareholders as a whole.

### THE SGM

A notice convening the SGM to be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 9:00 a.m. on Monday, 9 January 2006 is set out on pages 85 to 86 of this circular at which an ordinary resolution will be proposed to consider and, if thought fit, to approve the Capital Commitment. The Capital Commitment is conditional upon, inter alia, the approval of the Shareholders at the SGM.

To the best of knowledge of the Directors, as at the Latest Practicable Date, no Shareholder has any material interest in the Project. Therefore, no Shareholder and its associates will be required to abstain from voting at the SGM.

A form of proxy for use at the SGM is enclosed. If you are not able to attend the SGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of the Company at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting (as the case may be) should you so wish.

### RIGHT TO DEMAND A POLL

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

- (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.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Directors consider that the terms of the Further Supplemental Agreement and the Capital Commitment are fair and reasonable and are in the interests of the Company and Shareholders as a whole. Accordingly, the Directors recommend that all the Shareholders should vote in favour of the ordinary resolution as set out in the notice of the SGM.

### ADDITIONAL INFORMATION

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

**The Directors note that if the Company cannot obtain sufficient financing for the Project in the future, the Project may or may not proceed. Shareholders and investors are advised to exercise caution in dealing with the Shares.**

Yours faithfully,  
For and on behalf of  
**Asia Alliance Holdings Limited**  
**Koon Wing Yee**  
*Chairman and Chief Executive Officer*

## 1. INTERIM RESULTS

Set out below are the extracts of the unaudited interim results for the six months ended 30 September 2005 of the Group with comparative figures for the six months ended 30 September 2004. 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 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Turnover	3	26,858	21,981
Cost of sales and services		<u>(24,874)</u>	<u>(18,504)</u>
Gross profit		1,984	3,477
Other operating income		147	123
Distribution costs		(256)	(149)
Administrative expenses		(4,919)	(4,191)
Other operating expenses		(2,134)	(1,757)
Impairment loss recognised in respect of goodwill	10	(12,445)	—
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary		—	(198)
Write-back of allowance for doubtful debts		<u>—</u>	<u>17</u>
Loss from operations	4	(17,623)	(2,678)
Gain on disposal of subsidiaries		—	9,042
Finance costs	5	<u>(1,253)</u>	<u>(138)</u>
(Loss) profit for the period		<u><u>(18,876)</u></u>	<u><u>6,226</u></u>
Basic (loss) earnings per share	7	<u><u>HK\$(0.37)</u></u>	<u><u>HK\$0.18</u></u>

**CONDENSED CONSOLIDATED BALANCE SHEET  
AT 30 SEPTEMBER 2005**

		<b>30 September 2005</b>	<b>31 March 2005</b>
	<i>NOTES</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	9	22,634	23,661
Goodwill	10	8,677	21,122
Prepaid lease payments	11	9,007	—
Deposits paid for acquisition of property, plant and equipment		<u>16,081</u>	<u>—</u>
		<u>56,399</u>	<u>44,783</u>
Current assets			
Inventories		5,435	4,646
Trade and other receivables	12	23,881	25,766
Consideration receivable on acquisition of subsidiaries		—	11,120
Bank balances and cash		<u>116,466</u>	<u>33,352</u>
		<u>145,782</u>	<u>74,884</u>
Current liabilities			
Trade and other payables	13	11,186	8,040
Bills payable	14	1,687	1,200
Bank loans - amount due within one year		<u>—</u>	<u>30,985</u>
		<u>12,873</u>	<u>40,225</u>
Net current assets		<u>132,909</u>	<u>34,659</u>
		<u>189,308</u>	<u>79,442</u>
Capital and reserves			
Share capital	15	3,927	35,701
Reserves		<u>185,381</u>	<u>28,320</u>
		189,308	64,021
Non-current liabilities			
Bank loans - amount due after one year		<u>—</u>	<u>15,421</u>
		<u>189,308</u>	<u>79,442</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005**

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2004	<u>35,701</u>	<u>61,344</u>	<u>17,850</u>	<u>714</u>	<u>(16)</u>	<u>(57,737)</u>	<u>57,856</u>
Exchange differences on translation of overseas operations and net income recognised directly in equity	—	—	—	—	45	—	45
Realised on disposal of subsidiaries	—	—	—	—	16	—	16
Profit for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,104</u>	<u>6,104</u>
Total recognised income and expense for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>61</u>	<u>6,104</u>	<u>6,165</u>
At 31 March 2005	<u>35,701</u>	<u>61,344</u>	<u>17,850</u>	<u>714</u>	<u>45</u>	<u>(51,633)</u>	<u>64,021</u>
Exchange differences on translation of overseas operations and net income recognised directly in equity	—	—	—	—	1,360	—	1,360
Loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(18,876)</u>	<u>(18,876)</u>
Total recognised income and expense for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,360</u>	<u>(18,876)</u>	<u>(17,516)</u>
Reduction of share capital upon capital reorganisation (see note 15(a))	(35,344)	—	35,344	—	—	—	—
Rights issue of shares (see note 15(b))	<u>3,570</u>	<u>139,233</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>142,803</u>
At 30 September 2005	<u><u>3,927</u></u>	<u><u>200,577</u></u>	<u><u>53,194</u></u>	<u><u>714</u></u>	<u><u>1,405</u></u>	<u><u>(70,509)</u></u>	<u><u>189,308</u></u>
At 1 April 2004	<u>35,701</u>	<u>61,344</u>	<u>17,850</u>	<u>714</u>	<u>(16)</u>	<u>(57,737)</u>	<u>57,856</u>
Realised on disposal of subsidiaries and net income recognised directly in equity	—	—	—	—	16	—	16
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,226</u>	<u>6,226</u>
Total recognised income and expense for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16</u>	<u>6,226</u>	<u>6,242</u>
At 30 September 2004	<u><u>35,701</u></u>	<u><u>61,344</u></u>	<u><u>17,850</u></u>	<u><u>714</u></u>	<u><u>—</u></u>	<u><u>(51,511)</u></u>	<u><u>64,098</u></u>

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<u>(237)</u>	<u>(5,188)</u>
Net cash used in investing activities	<u>(14,137)</u>	<u>(61,815)</u>
Net cash from financing activities		
Proceeds from issue of new shares	142,803	—
Bank loans raised	25,000	5,000
Repayment of bank loans	<u>(71,406)</u>	<u>—</u>
	<u>96,397</u>	<u>5,000</u>
Net increase (decrease) in cash and cash equivalents	82,023	(62,003)
Cash and cash equivalents at beginning of the period	33,352	66,131
Effect of foreign exchange rate changes	<u>1,091</u>	<u>—</u>
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u><u>116,466</u></u>	<u><u>4,128</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 (the “HKICPA”).

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention.

The principal accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2005 except as described 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 except for HKFRS 3 “Business Combinations”, which is applicable for business combinations for which the agreement date is on or after 1 January 2005. 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 accounting period are prepared and presented.

**Business combinations**

In the current period, the Group has applied the transitional provisions of HKFRS 3 “Business Combinations” to goodwill arising on business combinations for which the agreement date was before 1 January 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

**Goodwill**

In previous periods, goodwill arising on business combinations for which the agreement date was before 1 January 2005 was capitalised and amortised over its estimated useful life. With respect to goodwill arising on business combinations for which the agreement date was before 1 January 2005 and previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 April 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on business combinations for which the agreement date is on or after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. This change in accounting policy has resulted in a decrease in loss for the current period of approximately HK\$1,152,000 other than the impairment loss recognised in respect of goodwill of approximately HK\$12,445,000. Comparative figures for 2004 have not been restated.

**Share-based payments**

In the current period, the Group has applied HKFRS 2 “Share-based Payment”, which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given 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. As all share options of the Group were granted before 7 November 2002 and the Group did not have share options granted after 7 November 2002, there is no financial effect on the loss or profit for the current or prior accounting periods.

#### Owner-occupied leasehold interests in land

In the current period, the Group has applied HKAS 17 “Leases”. Under HKAS 17, 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.

### 3. SEGMENT INFORMATION

The Group’s primary format for reporting segment information is business segments. For management purposes, the Group is currently organised into two main operating divisions - bleaching and dyeing and knitting. These divisions are the bases on which the Group reports its primary segment information. The divisions of wireless communication business and communication solutions consultancy services were discontinued by the management in view of the inactiveness of the relevant businesses during the period. The discontinued operations during the period did not have any significant impact on the results of the Group for the current and prior accounting periods.

#### For the six months ended 30 September 2005

	<b>Bleaching and dyeing</b>	<b>Knitting</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
External	26,707	151	—	26,858
Inter-segment	<u>—</u>	<u>2,157</u>	<u>(2,157)</u>	<u>—</u>
Total	<u>26,707</u>	<u>2,308</u>	<u>(2,157)</u>	<u>26,858</u>
Segment result	<u>(487)</u>	<u>(1,091)</u>	<u>—</u>	(1,578)
Interest income				90
Impairment loss recognised in respect of goodwill	(12,445)			(12,445)
Unallocated corporate expenses				<u>(3,690)</u>
Loss from operations				<u>(17,623)</u>

For the six months ended 30 September 2004

	Continuing operations		Discontinued operations		Consolidated HK\$'000
	Bleaching and dyeing HK\$'000	Knitting HK\$'000	Wireless communication business HK\$'000	Communication solutions consultancy services HK\$'000	
Turnover	<u>20,892</u>	<u>1,089</u>	<u>—</u>	<u>—</u>	<u>21,981</u>
Segment result	<u>1,176</u>	<u>(2,169)</u>	<u>70</u>	<u>(11)</u>	(934)
Interest income					3
Unallocated corporate expenses					<u>(1,747)</u>
Loss from operations					<u>(2,678)</u>

#### 4. LOSS FROM OPERATIONS

	Six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000
Loss from operations has been arrived at after charging:		
Amortisation of goodwill, included in other operating expenses	—	1,639
Depreciation	1,677	1,120
Total staff costs (including directors' emolument)	<u>3,233</u>	<u>2,214</u>

#### 5. FINANCE COSTS

The amount represents interest on bank loans wholly repayable within five years.

#### 6. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for both periods.

**7. 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) profit for the purposes of basic (loss) earnings per share	<u>(18,876)</u>	<u>6,226</u>

<b>Number of shares</b>	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2005</b>	<b>2004</b>
Weighted average number of shares for the purposes of basic (loss) earnings per share	<u>50,529,148</u>	<u>34,886,708</u>

The denominator for the purposes of calculating basic earnings per share for the six months ended 30 September 2004 has been adjusted to reflect the consolidation of shares on the basis that ten shares were consolidated into one share and the rights issue of shares in September 2005.

No diluted loss per share has been presented for the six months ended 30 September 2005 as the exercise of the Company's outstanding share options would reduce the loss per share for the period.

No diluted earnings per share was presented for the six months ended 30 September 2004 as the exercise prices of the Company's outstanding share options were higher than the average market price for that period.

**8. DIVIDENDS**

No dividend was paid by the Company during the period. The directors do not recommend the payment of an interim dividend for both periods.

**9. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent approximately HK\$381,000 on acquisition of property, plant and equipment (six months ended 30 September 2004: HK\$26,022,000 of which approximately HK\$14,529,000 was related to acquisition of subsidiaries).

## 10. GOODWILL

	<i>HK\$'000</i>
<b>COST</b>	
At 1 April 2005	23,042
Elimination of accumulated amortisation upon the application of HKFRS 3 ( <i>see note 2</i> )	<u>(1,920)</u>
At 30 September 2005	<u>21,122</u>
<b>AMORTISATION</b>	
At 1 April 2005	1,920
Elimination of accumulated amortisation upon the application of HKFRS 3	<u>(1,920)</u>
At 30 September 2005	<u>—</u>
<b>IMPAIRMENT</b>	
At 1 April 2005	—
Impairment loss recognised for the period	<u>12,445</u>
At 30 September 2005	<u>12,445</u>
<b>CARRYING AMOUNTS</b>	
At 30 September 2005	<u>8,677</u>
At 31 March 2005	<u>21,122</u>

Impairment loss was recognised based on the recoverable amounts of the subsidiaries acquired which were determined by the estimated discounted net future cash flows from these subsidiaries using market borrowing rates.

## 11. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise land use rights situated in the People's Republic of China (the "PRC") held under medium-term leases. At 30 September 2005, an amount of approximately HK\$102,000 (31 March 2005: nil) was included in other receivables in the condensed consolidated balance sheet.

**12. TRADE AND OTHER RECEIVABLES**

The Group allows an average credit period of up to 100 days to its customers. The aged analysis of trade receivables at the reporting date, based on invoice date, is as follows:

	<b>30 September 2005</b>	<b>31 March 2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	8,029	7,150
61 - 90 days	2,415	3,398
Over 90 days	<u>12,520</u>	<u>13,883</u>
Trade receivables	22,964	24,431
Other receivables	<u>917</u>	<u>1,335</u>
	<u><u>23,881</u></u>	<u><u>25,766</u></u>

**13. TRADE AND OTHER PAYABLES**

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

	<b>30 September 2005</b>	<b>31 March 2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	6,244	4,615
61 - 90 days	1,281	961
Over 90 days	<u>256</u>	<u>277</u>
Trade payables	7,781	5,853
Other payables	<u>3,405</u>	<u>2,187</u>
	<u><u>11,186</u></u>	<u><u>8,040</u></u>

**14. BILLS PAYABLE**

At the reporting date, the bills payable is aged within 60 days.

## 15. SHARE CAPITAL

	NOTES	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 April 2005		0.10	6,500,000,000	650,000
Effect of the Capital Reduction referred to below	(a)(i)		<u>—</u>	<u>(643,500)</u>
		0.001	6,500,000,000	6,500
Effect of the share consolidation referred to below	(a)(iii)		<u>(5,850,000,000)</u>	<u>—</u>
At 30 September 2005		0.01	<u>650,000,000</u>	<u>6,500</u>
Issued and fully paid:				
At 1 April 2005		0.10	357,006,840	35,701
Effect of the Capital Reduction referred to below	(a)(i)		<u>—</u>	<u>(35,344)</u>
		0.001	357,006,840	357
Effect of the share consolidation referred to below	(a)(iii)		<u>(321,306,156)</u>	<u>—</u>
		0.01	35,700,684	357
Rights issue of shares at a price of HK\$0.40 per rights share	(b)	0.01	<u>357,006,840</u>	<u>3,570</u>
At 30 September 2005		0.01	<u>392,707,524</u>	<u>3,927</u>

*Notes:*

- (a) In September 2005, the Company underwent a capital reorganisation (the “Capital Reorganisation”). Details of the Capital Reorganisation are set out in the circular dated 15 August 2005 issued by the Company.

At the special general meeting of the Company held on 6 September 2005, a special resolution approving the Capital Reorganisation was passed and the following capital reorganisation became effective on 9 September 2005:

- (i) the par value of the authorised, issued and unissued share capital of the Company was reduced from HK\$0.10 each to HK\$0.001 each (the “Capital Reduction”);
  - (ii) the amount of the cancelled paid-up capital in the sum of approximately HK\$35,344,000 arising from the Capital Reduction was credited to a capital reserve account of the Company; and
  - (iii) every ten issued and unissued reduced shares of HK\$0.001 each were consolidated into one share of HK\$0.01 each (the “Consolidated Share”).
- (b) Rights issue of 357,006,840 shares of HK\$0.01 each at a subscription price of HK\$0.40 per rights share were allotted on 27 September 2005 to the shareholders of the Company in the proportion of ten rights shares for every

Consolidated Share then held. The net proceeds of the rights issue amounted to approximately HK\$140.3 million of which approximately HK\$69.9 million was used for repayment of all outstanding bank loans, and the balance for general working capital purposes. All shares issued rank pari passu with the then existing shares in issue in all respects.

#### 16. 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 30 September</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of bleached and dyed fabrics	2,738	13,047
Bleaching and dyeing charges received	<u>1,255</u>	<u>166</u>

At the reporting date, amounts due from the above 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	<u>249</u>	<u>5,809</u>

- (b) During the period, the Group received administrative services from Easyknit International Trading Company Limited (“EITC”), 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 paid services fee of approximately HK\$120,000 (six months ended 30 September 2004: HK\$121,000). The services fee is determined based on mutually agreed terms.
- (c) During the period, a director of the Company provided a personal guarantee for HK\$55,000,000 to a bank in respect of general banking facilities granted to a wholly-owned subsidiary of the Company. The relevant bank loans of the subsidiary were fully repaid by applying the net proceeds from the rights issue of the Company in September 2005.

## 17. CAPITAL COMMITMENTS

	<b>30 September 2005</b>	<b>31 March 2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted but not provided for in respect of:		
- construction of plants	4,647	19,080
- acquisition of property, plant and equipment	10	—
- acquisition of land use rights	—	9,538
- capital injection for interests in a jointly controlled entity and a non wholly-owned subsidiary	<u>20,904</u>	<u>20,904</u>
	<u>25,561</u>	<u>49,522</u>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment (note)	<u>169,693</u>	<u>171,382</u>

*Note:*

In December 2004, the Group entered into agreements in connection with the acquisition of the land use rights, the construction of the plants and the proposed development of manufacturing operations in Huzhou City, Zhejiang Province, the PRC (the “Project”) with the People’s Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, the PRC (the “Vendor”). The Project was divided into two phases and the investment in phase 1 was expected to be up to HK\$200,000,000. The related capital commitment has been presented above. The total investment of the Project (being phase 1 and phase 2) was not determined. Details of the agreements are set out in the circular issued by the Company dated 21 February 2005.

## 18. POST BALANCE SHEET EVENT

In November 2005, the Group entered into a supplemental agreement (the “Supplemental Agreement”) in respect of the Project with the Vendor. The total investment of the Project (being phase 1 and phase 2), which is subject to shareholders’ approval, as agreed by the parties in the Supplemental Agreement is estimated to be approximately HK\$499,000,000 (equivalent to RMB519,000,000), out of which approximately HK\$25,660,000 has been paid before the balance sheet date. The Group intends to finance the Project through internal resources, bank borrowings and other forms of financing available to the Group. Details of the above are set out in the announcement dated 30 November 2005 issued by the Company.

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated income statement of the Group for the year ended 31 December 2002, the 15 months ended 31 March 2004 and the year ended 31 March 2005, the audited consolidated balance sheet of the Group as at 31 December 2002, 31 March 2004 and 31 March 2005, the balance sheet of the Company as at 31 March 2004 and 31 March 2005, the consolidated statement of changes in equity and the consolidated cash flow statement for the 15 months ended 31 March 2004 and the year ended 31 March 2005. The information upon which the summary is based has been fully extracted from the annual reports of the Company for the relevant years/period.

During the period of 15 months ended 31 March 2004, the Company changed its financial year-end date from 31 December to 31 March to align with the financial year-end date with that of Easyknit International Holdings Limited, a controlling Shareholder. Therefore, the financial statements of the Group of such period covered the period from 1 January 2003 to 31 March 2004.

## CONSOLIDATED INCOME STATEMENT

	NOTES	1.4.2004 to 31.3.2005 HK\$'000	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Turnover	5	53,662	5,083	70,354
Cost of sales and services		<u>(43,700)</u>	<u>(3,352)</u>	<u>(52,216)</u>
Gross profit		9,962	1,731	18,138
Other operating income	7	265	709	2,398
Distribution costs		(303)	(6,948)	(19,942)
Administrative expenses		(9,773)	(26,597)	(55,775)
Other operating expenses		(2,279)	(5,417)	(5,399)
Impairment loss recognised in respect of property, plant and equipment		—	(9,971)	(785)
Impairment loss recognised in respect of long term investments		—	(3,900)	—
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary		(403)	(3,297)	(42,115)
Allowance for doubtful debts		17	(1,155)	(6,082)
Allowance for amounts due from associates		<u>—</u>	<u>(317)</u>	<u>—</u>
Loss from operations	8	(2,514)	(55,162)	(109,562)
Gain/(loss) on disposal of subsidiaries/discontinued operations	30	9,042	(539)	(4,615)
Finance costs	9	(424)	(1,960)	(37)
Share of results of an associate		—	(4)	(13,991)
Impairment loss recognised in respect of goodwill of an associate		—	—	(48,807)
Allowance for loans to an associate		—	—	(14,216)
Share of results of jointly controlled entities		<u>—</u>	<u>(72)</u>	<u>(65)</u>
Profit/(loss) before taxation		6,104	(57,737)	(191,293)
Taxation		<u>—</u>	<u>—</u>	<u>309</u>
Profit/(loss) before minority interests		6,104	(57,737)	(190,984)
Minority interests		<u>—</u>	<u>—</u>	<u>(440)</u>
Net profit/(loss) for the period/year		<u>6,104</u>	<u>(57,737)</u>	<u>(191,424)</u>
Basic earnings (loss) per share	12	<u>HK\$0.02</u>	<u>HK\$(0.97)</u>	<u>HK\$(4.98)*</u>

\* The basic loss per share as stated above has been adjusted for the effect of the consolidation of shares in September 2003 and rights issue of shares in September 2003 and March 2004, details of which are set out in the respective circulars.

## CONSOLIDATED BALANCE SHEET

	NOTES	31.3.2005 HK\$'000	31.3.2004 HK\$'000	31.12.2002 HK\$'000
<b>Non-current assets</b>				
Property, plant and equipment	14	23,661	665	5,999
Goodwill	15	21,122	—	388
Interests in jointly controlled entities		—	—	1,253
Long term investments	17	—	—	3,900
Loan to Acme Landis Operations Holdings Limited	18	—	403	3,700
		<u>44,783</u>	<u>1,068</u>	<u>15,240</u>
<b>Current assets</b>				
Inventories, at cost	19	4,646	—	137
Trade and other receivables	20	25,766	1,935	2,669
Consideration receivable on acquisition of subsidiaries	29	11,120	—	—
Bank balances and cash		<u>33,352</u>	<u>66,131</u>	<u>1,822</u>
		<u>74,884</u>	<u>68,066</u>	<u>4,628</u>
<b>Current liabilities</b>				
Trade and other payables	21	8,040	7,069	6,915
Bill payable	22	1,200	—	—
Bank loans - amount due within one year	23	30,985	—	—
Amounts due to jointly controlled entities		—	—	1,234
Other loan, secured	24	—	4,000	—
		<u>40,225</u>	<u>11,069</u>	<u>8,149</u>
<b>Net current assets (liabilities)</b>		<u>34,659</u>	<u>56,997</u>	<u>(3,521)</u>
		<u>79,442</u>	<u>58,065</u>	<u>11,719</u>
<b>Capital and reserves</b>				
Share capital	25	35,701	35,701	110,187
Reserves		<u>28,320</u>	<u>22,155</u>	<u>(98,468)</u>
		<u>64,021</u>	<u>57,856</u>	<u>11,719</u>
<b>Minority interests</b>				
		—	209	—
<b>Non-current liabilities</b>				
Bank loans - amount due after one year	23	<u>15,421</u>	—	—
		<u>79,442</u>	<u>58,065</u>	<u>11,719</u>

## BALANCE SHEET

	<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	16	<u>61,626</u>	<u>2,116</u>
<b>Current assets</b>			
Other receivables		125	109
Bank balances and cash		<u>459</u>	<u>65,856</u>
		584	65,965
<b>Current liabilities</b>			
Other payables		<u>545</u>	<u>1,322</u>
<b>Net current assets</b>			
		<u>39</u>	<u>64,643</u>
		<u>61,665</u>	<u>66,759</u>
<b>Capital and reserves</b>			
Share capital	25	35,701	35,701
Reserves	27	<u>25,964</u>	<u>27,942</u>
		61,665	63,643
<b>Non-current liabilities</b>			
Amounts due to subsidiaries	28	<u>—</u>	<u>3,116</u>
		<u>61,665</u>	<u>66,759</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve	Contributed surplus	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	110,187	255,030	—	—	(14)	(353,484)	11,719
Rights issue of shares	35,260	52,890	—	—	—	—	88,150
Issue of new shares by private placements	7,272	8,454	—	—	—	—	15,726
Reduction of share capital and share premium upon capital reorganisations	(117,018)	(255,030)	17,850	354,198	—	—	—
Elimination of accumulated losses	—	—	—	(353,484)	—	353,484	—
Realised on disposal of subsidiaries	—	—	—	—	(2)	—	(2)
Net loss for the period	—	—	—	—	—	(57,737)	(57,737)
At 31 March 2004	35,701	61,344	17,850	714	(16)	(57,737)	57,856
Realised on disposal of subsidiaries	—	—	—	—	16	—	16
Exchange differences on translation of overseas operations and net gain not recognised in the consolidated income statement	—	—	—	—	45	—	45
Net profit for the year	—	—	—	—	—	6,104	6,104
At 31 March 2005	<u>35,701</u>	<u>61,344</u>	<u>17,850</u>	<u>714</u>	<u>45</u>	<u>(51,633)</u>	<u>64,021</u>

The capital reserve of the Group represents the credit arising from the reduction of share capital of the Company in March 2004 and can be applied in the future for distribution to the shareholders.

The contributed surplus of the Group represents the credit arising from the reduction of share capital of the Company in February 2003 which may then be utilised by the directors in accordance with the Company's Bye-laws and all applicable laws, including to eliminate the accumulated losses of the Company.

## CONSOLIDATED CASH FLOW STATEMENT

	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Cash flows from operating activities		
Net profit (loss) for the year/period	6,104	(57,737)
Adjustments for:		
Share of results of an associate	—	4
Share of results of jointly controlled entities	—	72
Interest income	(45)	(70)
Interest expense	424	1,960
Depreciation	2,744	6,495
Amortisation of goodwill	1,920	—
(Gain) loss on disposal of subsidiaries	(9,042)	539
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary	403	3,297
Allowance for inventories	94	—
(Write-back of) allowance for doubtful debts	(17)	1,155
Allowance for amounts due from associates	—	317
Loss on disposal of property, plant and equipment	—	379
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
Impairment loss recognised in respect of property, plant and equipment	—	9,971
Impairment loss recognised in respect of long term investments	—	3,900
Impairment loss recognised in respect of goodwill of subsidiaries	—	492
Operating cash inflows (outflows) before movements in working capital	2,585	(29,102)
(Increase) decrease in inventories	(1,730)	137
Increase in trade and other receivables	(4,127)	(864)
(Decrease) increase in trade and other payables	(4,211)	132
Decrease in bills payable	(637)	—
Cash used in operations	(8,120)	(29,697)
Interest paid	(275)	(1,534)
Net cash used in operating activities	(8,395)	(31,231)

	<i>Notes</i>	<b>1.4.2004 to 31.3.2005</b> <i>HK\$'000</i>	<b>1.1.2003 to 31.3.2004</b> <i>HK\$'000</i>
Cash flows from investing activities			
Interest received		45	70
Proceeds from disposal of property, plant and equipment		—	227
Purchase of property, plant and equipment		(11,779)	(12,125)
Investment in an associate		—	(4)
Advances to associates		—	(317)
Acquisition of subsidiaries/a subsidiary, net of cash and cash equivalents acquired	29	(39,191)	(72)
Excess payment on acquisition of subsidiaries		(11,120)	—
Disposal of subsidiaries, net of cash and cash equivalents disposal of	30	<u>(15)</u>	<u>(115)</u>
Net cash used in investing activities		<u>(62,060)</u>	<u>(12,336)</u>
Cash flows from financing activities			
Bank loans raised		40,000	—
Proceeds from issue of new shares		—	103,876
Other loans raised		—	34,270
Repayment of bank loans		(2,369)	—
Repayment of other loans		<u>—</u>	<u>(30,270)</u>
Net cash from financing activities		<u>37,631</u>	<u>107,876</u>
Net (decrease) increase in cash and cash equivalents		(32,824)	64,309
Cash and cash equivalents at beginning of the year/period		66,131	1,822
Effect of foreign exchange rate changes		<u>45</u>	<u>—</u>
Cash and cash equivalents at end of the year/period, represented by bank balances and cash		<u><u>33,352</u></u>	<u><u>66,131</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”).

The Company is an investment holding company. Its subsidiaries are principally engaged in bleaching, dyeing and knitting.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The consolidated financial statements for the current period cover the twelve month period ended 31 March 2005. The corresponding amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a fifteen month period from 1 January 2003 to 31 March 2004 and therefore may not be comparable with amounts shown for the current period. The period covered by the preceding consolidated financial statements was greater than twelve months because the directors of the Company determined to bring the balance sheet date in line with that of the controlling shareholder, Easyknit International Holdings Limited (“Easyknit”). No further changes to reporting dates are anticipated.

**3. 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 the other 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.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention 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 the balance sheet date.

The results of subsidiaries acquired or disposed of during the period 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, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

**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/period. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill in so far as it has not already been amortised, less any identified impairment loss.

**Jointly controlled entities**

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

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill in so far as it has not already been amortised, 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**

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.

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

Service income is recognised when bleaching, dyeing and knitting services are rendered.

Commission income is recognised when services are provided.

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.

**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 less depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Plant and machinery	9% to 18%
Furniture, fixtures and equipment	9% to 30%
Motor vehicles	9% to 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.

**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 intends to hold to maturity, which are held-to-maturity debt securities, are measured at amortised cost less any identified impairment losses. 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 period.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average 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/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 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, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

**Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are included 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 exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

**Operating leases**

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

**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.

## 5. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods sold, net of returns, and services rendered by the Group during the year/period. An analysis of the Group's turnover is as follows:

	<b>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bleaching and dyeing		
— sales of goods	43,908	—
— service income	<u>9,310</u>	<u>—</u>
	<u>53,218</u>	<u>—</u>
Knitting services	444	—
Wireless communication services	—	3,982
Communication solutions consultancy services	<u>—</u>	<u>1,101</u>
	<u><u>53,662</u></u>	<u><u>5,083</u></u>

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

**Business segments**

For management purposes, the Group is currently organised into four main operating divisions -bleaching and dyeing, knitting, wireless communication business and communication solutions consultancy services. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

**For the year ended 31 March 2005**(i) *Income statement*

	<b>Bleaching and dyeing</b>	<b>Knitting</b>	<b>Wireless communication business</b>	<b>Communication solutions consultancy services</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover						
External	53,218	444	—	—	—	53,662
Inter-segment	<u>—</u>	<u>2,945</u>	<u>—</u>	<u>—</u>	<u>(2,945)</u>	<u>—</u>
Total	<u><u>53,218</u></u>	<u><u>3,389</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>(2,945)</u></u>	<u><u>53,662</u></u>
Segment result	<u><u>4,095</u></u>	<u><u>(2,370)</u></u>	<u><u>56</u></u>	<u><u>(11)</u></u>	<u><u>—</u></u>	1,770
Interest income						45
Unallocated corporate expenses						<u>(4,329)</u>
Loss from operations						(2,514)
Gain on disposal of subsidiaries						9,042
Finance costs						<u>(424)</u>
Net profit for the year						<u><u>6,104</u></u>

(ii) *Balance sheet*

	<b>Bleaching and dyeing</b>	<b>Knitting</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	71,022	11,747	82,769
Unallocated corporate assets			<u>36,898</u>
Consolidated total assets			<u><u>119,667</u></u>
<b>LIABILITIES</b>			
Segment liabilities	8,225	306	8,531
Unallocated corporate liabilities			<u>47,115</u>
Consolidated total liabilities			<u><u>55,646</u></u>

(iii) *Other information*

	<b>Bleaching and dyeing</b>	<b>Knitting</b>	<b>Wireless communication business</b>	<b>Communication solutions consultancy services</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Addition of goodwill	23,042	—	—	—	23,042
Amortisation of goodwill	1,920	—	—	—	1,920
Capital additions	84	11,695	—	—	11,779
Depreciation	1,717	1,011	6	10	2,744
Allowance for inventories	94	—	—	—	94
Write back of allowance for doubtful debts	<u>—</u>	<u>—</u>	<u>(17)</u>	<u>—</u>	<u>(17)</u>

In addition, allowance for a loan to Acme Landis Operations Holdings Limited (“ALOH”), a former subsidiary of the Company, amounting to HK\$403,000 charged to the consolidated income statement is related to the segments of sanitary fixtures and fittings, hardware, industrial and consumer products, and drainage, plumbing and engineering contracting services, the businesses of which were discontinued by the Group in 2002.

For the fifteen months ended 31 March 2004

(i) *Income statement*

	<b>Wireless communication business</b>	<b>Communication solutions consultancy services</b>	<b>Internet operations</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>3,982</u>	<u>1,101</u>	<u>—</u>	<u>—</u>	<u>5,083</u>
Segment result	<u>(31,873)</u>	<u>(2,856)</u>	<u>(304)</u>	<u>—</u>	<u>(35,033)</u>
Interest income					70
Allowance for amounts due from associates	(317)				(317)
Unallocated corporate expenses					<u>(19,882)</u>
Loss from operations					(55,162)
Loss on disposal of subsidiaries					(539)
Finance costs					(1,960)
Share of results of an associate			(4)		(4)
Share of results of jointly controlled entities	(72)				<u>(72)</u>
Net loss for the period					<u>(57,737)</u>

(ii) *Balance sheet*

	<b>Wireless communication business</b>	<b>Communication solutions consultancy services</b>	<b>Internet operations</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	76	59	2	137
Unallocated corporate assets				<u>68,997</u>
Consolidated total assets				<u><u>69,134</u></u>
<b>LIABILITIES</b>				
Segment liabilities	3,189	558	80	3,827
Unallocated corporate liabilities				<u>7,242</u>
Consolidated total liabilities				<u><u>11,069</u></u>

(iii) *Other information*

	<b>Wireless communication business</b>	<b>Communication solutions consultancy services</b>	<b>Internet operations</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital additions	12,125	—	—	12,125
Depreciation	5,863	434	198	6,495
Impairment loss in respect of property, plant and equipment	9,971	—	—	9,971
Impairment loss in respect of long term investments	3,900	—	—	3,900
Allowance for doubtful debts	1,045	110	—	1,155
Allowance for amounts due from associates	317	—	—	317
Impairment loss in respect of goodwill of subsidiaries	104	388	—	492
Loss (gain) on disposal of property, plant and equipment	<u>323</u>	<u>58</u>	<u>(2)</u>	<u>379</u>

In addition, allowance for a loan to ALOH, a former subsidiary of the Company, amounting to HK\$3,297,000 charged to the consolidated income statement is related to the segments of sanitary fixtures and fittings, hardware, industrial and consumer products, and drainage, plumbing and engineering contracting services, the business of which were discontinued by the Group in 2002.

## Geographical segments

An analysis of the Group's turnover by geographical market for the year/period is as follows:

	<b>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	—	5,083
The People's Republic of China, excluding Hong Kong (the "PRC")	<u>53,662</u>	<u>—</u>
	<u><u>53,662</u></u>	<u><u>5,083</u></u>

An analysis of the carrying amount of segment assets and additions to property, plant and equipment and goodwill, 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 and goodwill</b>	
	<b>31.3.2005</b>	<b>31.3.2004</b>	<b>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	11,718	67,425	—	12,229
PRC	<u>107,949</u>	<u>1,709</u>	<u>34,821</u>	<u>—</u>
	<u><u>119,667</u></u>	<u><u>69,134</u></u>	<u><u>34,821</u></u>	<u><u>12,229</u></u>

## 7. OTHER OPERATING INCOME

	<b>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	45	70
Commission income	—	471
Others	<u>220</u>	<u>168</u>
	<u><u>265</u></u>	<u><u>709</u></u>

An analysis of the Group's other operating income is as follows:

## 8. LOSS FROM OPERATIONS

	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Directors' remuneration ( <i>note 10(a)</i> )	253	868
Other staff costs, including retirement benefits costs	<u>4,868</u>	<u>11,869</u>
Total staff costs	<u>5,121</u>	<u>12,737</u>
Allowance for inventories	94	—
Amortisation of goodwill ( <i>note</i> )	1,920	—
Auditors' remuneration	545	350
Cost of inventories recognised as an expense	32,345	378
Depreciation	2,744	6,495
Impairment loss recognised in respect of goodwill of subsidiaries ( <i>note</i> )	—	492
Loss on disposal of property, plant and equipment	—	379
Loss on waiver of amount due from a minority shareholder of a subsidiary ( <i>note</i> )	—	117
Loss on waiver of loan to a jointly controlled entity ( <i>note</i> )	<u>—</u>	<u>7</u>

*Note: The amounts are included in other operating expenses.*

## 9. FINANCE COSTS

	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Interest on borrowings wholly repayable within five years:		
— loan of HK\$30,270,000 from Planetic International Limited (the "Easyknit Loan"), a wholly-owned subsidiary of Easyknit ( <i>note 13(e)</i> )	—	1,515
— bank borrowings	339	—
— other borrowings	<u>85</u>	<u>445</u>
	<u>424</u>	<u>1,960</u>

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## (a) Information regarding directors' emoluments

	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Directors' fees:		
Executive	—	—
Independent non-executive	<u>253</u>	<u>200</u>
	<u>253</u>	<u>200</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	—	664
Retirement benefits costs	<u>—</u>	<u>4</u>
	<u>—</u>	<u>668</u>
Total directors' emoluments	<u><u>253</u></u>	<u><u>868</u></u>

The emoluments of the directors fall within the following band:

	Number of directors	
	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
Nil to HK\$1,000,000	<u>6</u>	<u>15</u>

## (b) Information regarding employees' emoluments

The five highest paid individuals of the Group did not include any director (1.1.2003 to 31.3.2004: included one director). The emoluments of the five (1.1.2003 to 31.3.2004: four) highest paid individuals, not being directors, are as follows:

	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Salaries and other benefits	1,175	4,028
Retirement benefits costs	47	62
Severance payments	<u>—</u>	<u>37</u>
Total employees' emoluments	<u><u>1,222</u></u>	<u><u>4,127</u></u>

Their emoluments were within the following bands:

	Number of employees	
	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
Nil to HK\$1,000,000	5	3
HK\$1,000,001 to HK\$1,500,000	<u>—</u>	<u>1</u>
	<u>5</u>	<u>4</u>

During the year/period, 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 periods, no director waived any emoluments.

## 11. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for the year ended 31 March 2005 and for the fifteen months ended 31 March 2004.

The tax charge (credit) for the year/period can be reconciled to the results per the consolidated income statement as follows:

	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Net profit (loss) for the year/period	<u>6,104</u>	<u>(57,737)</u>
Tax charge (credit) of Hong Kong Profits Tax at 17.5% (1.1.2003 to 31.3.2004: 17.5%)	1,068	(10,104)
Tax effect of share of results of associates	—	1
Tax effect of share of results of jointly controlled entities	—	13
Tax effect of income not taxable for tax purposes	(1,654)	(22)
Tax effect of expenses not deductible for tax purposes	818	3,575
Tax effect attributable to tax exemption granted to a PRC subsidiary	(1,276)	—
Tax effect of tax losses not recognised	885	5,929
Others	<u>159</u>	<u>608</u>
Taxation for the year/period	<u>—</u>	<u>—</u>

Pursuant to Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, the Company's subsidiaries are entitled to preferential tax treatment with full exemption from PRC enterprise income tax for two years starting from the first profitable year of operations, after offsetting all tax losses brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years.

## 12. EARNINGS (LOSS) PER SHARE

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

	<b>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the purposes of basic earnings (loss) per share	<u>6,104</u>	<u>(57,737)</u>
<b>Number of shares</b>		
Number/weighted average number of shares for the purposes of basic earnings (loss) per share	<u>357,006,840</u>	<u>59,376,993</u>

The denominator for the purposes of calculating basic loss per share for the fifteen months ended 31 March 2004 has been adjusted to reflect the consolidation of shares in September 2003 on the basis that forty shares were consolidated into one share and the rights issue of shares in September 2003 and March 2004.

No diluted earnings per share has been presented for the year ended 31 March 2005 as the exercise prices of the Company's outstanding share options were higher than the average market price for the year.

No diluted loss per share was presented for the fifteen months ended 31 March 2004 as the exercise of the Company's outstanding share options would reduce the loss per share for that period.

## 13. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

- (a) During the year/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>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of bleached and dyed fabrics	23,647	—
Bleaching and dyeing charges received	<u>167</u>	<u>—</u>

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

	<b>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	<u>5,809</u>	<u>—</u>

- (b) During the year, the Group received administrative services from Easyknit International Trading Company Limited (“EITC”), 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 paid services fee of approximately HK\$241,000 (1.1.2003 to 31.3.2004: nil). The services fee is determined based on mutually agreed terms.
- (c) The Group purchased the entire issued shares of Po Cheong International Enterprises Limited (“Po Cheong”) from a wholly-owned subsidiary of Easyknit at a consideration of HK\$65,000,000 (note 29), subject to adjustment, as described in the circular of the Company dated 23 April 2004. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The acquisition of Po Cheong constituted a major and connected transaction of the Group and was approved by the shareholders at the special general meeting of the Company held on 10 May 2004. The consideration for the acquisition has been subsequently adjusted downwards to HK\$38,880,000 on 16 June 2005.
- (d) During the year, a director of the Company provided a personal guarantee for HK\$55,000,000 to a bank in respect of general banking facilities granted to a wholly-owned subsidiary of the Company.
- (e) During the fifteen months ended 31 March 2004, the Group obtained the Easyknit Loan for working capital purposes. The loan was unsecured, bore interest at prevailing market rates and was repaid in full during the fifteen months ended 31 March 2004. Interest paid by the Group during the fifteen months ended 31 March 2004 amounted to HK\$1,514,500.

## 14. PROPERTY, PLANT AND EQUIPMENT

	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>				
<b>COST</b>				
At 1 April 2004	—	27,808	539	28,347
Additions	10,369	1,044	366	11,779
On acquisition of subsidiaries	12,339	1,422	768	14,529
On disposal of subsidiaries	—	(27,792)	(539)	(28,331)
Disposals	—	(15)	—	(15)
	<u>—</u>	<u>(15)</u>	<u>—</u>	<u>(15)</u>
At 31 March 2005	<u>22,708</u>	<u>2,467</u>	<u>1,134</u>	<u>26,309</u>
<b>DEPRECIATION AND IMPAIRMENT LOSS</b>				
At 1 April 2004	—	27,376	306	27,682
Provided for the year	1,945	606	193	2,744
On disposal of subsidiaries	—	(27,430)	(333)	(27,763)
Eliminated on disposals	—	(15)	—	(15)
	<u>—</u>	<u>(15)</u>	<u>—</u>	<u>(15)</u>
At 31 March 2005	<u>1,945</u>	<u>537</u>	<u>166</u>	<u>2,648</u>
<b>NET BOOK VALUES</b>				
At 31 March 2005	<u>20,763</u>	<u>1,930</u>	<u>968</u>	<u>23,661</u>
At 31 March 2004	<u>—</u>	<u>432</u>	<u>233</u>	<u>665</u>

## 15. GOODWILL

	<b>THE GROUP</b> <i>HK\$'000</i>
COST	
At 1 April 2004	589
On acquisition of subsidiaries	23,042
On disposal of subsidiaries	<u>(589)</u>
At 31 March 2005	<u>23,042</u>
AMORTISATION AND IMPAIRMENT LOSS	
At 1 April 2004	589
Provided for the year	1,920
On disposal of subsidiaries	<u>(589)</u>
At 31 March 2005	<u>1,920</u>
CARRYING AMOUNTS	
At 31 March 2005	<u><u>21,122</u></u>
At 31 March 2004	<u><u>—</u></u>

Goodwill is amortised over ten years.

## 16. 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	334,470	334,470
Less: Impairment loss recognised	<u>(334,470)</u>	<u>(334,470)</u>
Amounts due from subsidiaries	<u>61,626</u>	<u>2,116</u>
	<u><u>61,626</u></u>	<u><u>2,116</u></u>

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, repayment of the amounts 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.

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

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share/ registered capital/ stated capital	Proportion of nominal value of issued share capital/ registered capital/ stated capital held by the Company		Principal activities
			Directly	Indirectly	
Copplestone Limited	Cayman Islands/ Hong Kong	Ordinary US\$42,880,770	100%	—	Investment holding
Easyknit (Mauritius) Limited	Republic of Mauritius/ Hong Kong	Stated US\$1	100%	—	Investment holding
Good Fine Technology Limited	Hong Kong	Ordinary HK\$2	—	100%	Wireless communication business, communication solutions consultancy services and Internet operations
Po Cheong International Enterprises Limited	Hong Kong	Ordinary HK\$90	—	100%	Investment holding
Tat Cheong International (HK) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
東莞永耀漂染有限公司 ("Wing Yiu")*	PRC	Registered HK\$11,260,000	—	100%	Bleaching and dyeing
永義紡織(河源)有限公司 ("He Yuan")**	PRC	Registered US\$1,000,000	—	100%	Knitting

Notes:

\* 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 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 result in particulars of excessive length.

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

## 17. LONG TERM INVESTMENTS

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment securities:		
Unlisted equity investments, at cost	—	3,900
Less: Impairment loss recognised	—	(3,900)
	<u>—</u>	<u>(3,900)</u>
	<u>—</u>	<u>—</u>

The investment securities were disposed of by the Group on disposal of subsidiaries during the year ended 31 March 2005.

## 18. LOAN TO ACME LANDIS OPERATIONS HOLDINGS LIMITED (“ALOH”)

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loan to ALOH	45,815	45,815
Less: Allowance	(45,815)	(45,412)
	<u>—</u>	<u>403</u>

The loan to ALOH is interest-free and has no fixed repayment terms. In the opinion of the directors, repayment of the loan due from ALOH is not probable. Accordingly, an allowance was made to reduce the carrying amount of the loan to zero at 31 March 2005.

## 19. INVENTORIES

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	4,097	—
Work-in-progress	391	—
Finished goods	158	—
	<u>4,646</u>	<u>—</u>

At 31 March 2005, raw materials of HK\$3,745,000 were carried at net realisable value.

**20. TRADE AND OTHER RECEIVABLES**

The Group allows an average credit period of up to 90 days to its 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	7,150	—
61 - 90 days	3,398	—
Over 90 days	<u>13,883</u>	<u>—</u>
Trade receivables	24,431	—
Other receivables	<u>1,335</u>	<u>1,935</u>
	<u><u>25,766</u></u>	<u><u>1,935</u></u>

**21. 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	4,615	—
61 - 90 days	961	—
Over 90 days	<u>277</u>	<u>101</u>
Trade payables	5,853	101
Other payables	<u>2,187</u>	<u>6,968</u>
	<u><u>8,040</u></u>	<u><u>7,069</u></u>

**22. BILLS PAYABLE**

At the balance sheet date, the bills payable is aged within 30 days.

## 23. BANK LOANS

	THE GROUP	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The bank loans are unsecured, bear interest at prevailing market rates and are repayable as follows:		
Within one year	30,985	—
Between one to two years	5,985	—
Between two to five years	<u>9,436</u>	<u>—</u>
	46,406	—
Less: Amount due within one year shown under current liabilities	<u>(30,985)</u>	<u>—</u>
Amount due after one year	<u><u>15,421</u></u>	<u><u>—</u></u>

An amount of HK\$25,000,000 of the bank loans which are due within one year, is guaranteed personally by a director of the Company.

## 24. OTHER LOAN, SECURED

On 25 June 2004, the Group entered into a settlement agreement with the lender for the full settlement of the loan of HK\$4,000,000 and accrued interest of HK\$511,000 (up to the date of the agreement) by way of transferring all the issued shares of i100 Wireless Corporation, a wholly-owned subsidiary of the Company, to the lender. i100 Wireless Corporation and its subsidiaries are principally engaged in the wireless communication business (note 30).

## 25. 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 January 2003		0.10	3,000,000,000	300,000
Effect of the First Reorganisation referred to below	(a)(i)		<u>27,000,000,000</u>	<u>—</u>
		0.01	30,000,000,000	300,000
Effect of the Share Consolidation referred to below	(b)		<u>(29,250,000,000)</u>	<u>—</u>
		0.40	750,000,000	300,000
Effect of the Second Reorganisation referred to below	(f)(i)		<u>2,250,000,000</u>	<u>—</u>
		0.10	3,000,000,000	300,000
Increase of authorised share capital	(f)(iii)		<u>3,500,000,000</u>	<u>350,000</u>
At 31 March 2004 and 31 March 2005		0.10	<u><u>6,500,000,000</u></u>	<u><u>650,000</u></u>
Issued and fully paid:				
At 1 January 2003		0.10	1,101,873,000	110,187
Reduction of share capital	(a)(ii)		<u>—</u>	<u>(99,168)</u>
		0.01	1,101,873,000	11,019
Effect of the Share Consolidation referred to below	(b)		<u>(1,074,326,175)</u>	<u>—</u>
		0.40	27,546,825	11,019
Rights issue of shares at a price of HK\$1.00 per rights share	(c)	0.40	13,773,412	5,509
Issue of new shares by private placements	(d) & (e)	0.40	<u>18,180,903</u>	<u>7,272</u>
		0.40	59,501,140	23,800
Reduction of share capital	(f)(ii)		<u>—</u>	<u>(17,850)</u>
		0.10	59,501,140	5,950
Rights issue of shares at a price of HK\$0.25 per rights share	(g)	0.10	<u>297,505,700</u>	<u>29,751</u>
At 31 March 2004 and 31 March 2005		0.10	<u><u>357,006,840</u></u>	<u><u>35,701</u></u>

*Notes:*

- (a) In February 2003, the Company underwent a capital reorganisation (the “First Reorganisation”). Details of the First Reorganisation are set out in the circular dated 16 January 2003 issued by the Company.

At the special general meeting of the Company held on 7 February 2003, a special resolution approving the First Reorganisation was passed and the following capital reorganisation took effect on 10 February 2003:

- (i) unissued shares of HK\$0.10 each in the authorised share capital of the Company were subdivided into ten shares of HK\$0.01 each;
  - (ii) nominal value of issued shares in the share capital of the Company was reduced from HK\$0.10 each to HK\$0.01 each (the “First Capital Reduction”);
  - (iii) the entire amount of HK\$255,030,000 standing to the credit of the share premium account of the Company was cancelled (the “Share Premium Cancellation”); and
  - (iv) the credit amounts arising from the First Capital Reduction and the Share Premium Cancellation were credited to the contributed surplus account of the Company where such amounts were utilised to eliminate the accumulated losses of the Company as at 31 December 2002 to the extent of HK\$353,484,000.
- (b) As announced by the Company on 1 August 2003, the Company proposed to effect a share consolidation pursuant to which every forty issued and unissued then existing shares of HK\$0.01 each were consolidated into one consolidated share of HK\$0.40 each (“Share Consolidation”). Details of the Share Consolidation are set out in the circular dated 20 August 2003 issued by the Company. The ordinary resolution approving the Share Consolidation was passed at the special general meeting of the Company held on 8 September 2003.
- (c) Rights issue of 13,773,412 shares of HK\$0.40 each at a subscription price of HK\$1.00 per rights share were allotted on 25 September 2003 to the shareholders of the Company in the proportion of one rights share for every two existing shares then held. The net proceeds of the rights issue were used for general working capital purposes.
- (d) As announced by the Company on 14 October 2003, the Company conditionally agreed to place through its placing agent, Get Nice Investment Limited, 8,264,047 new shares of HK\$0.40 each in the capital of the Company (the “2003 First Placing Shares”) at a price of HK\$0.865 per share which represents a discount of approximately 19.9% to the closing price of HK\$1.08 per share quoted on the Stock Exchange on 13 October 2003, being the last full trading day of the Company’s shares prior to the date of the announcement.

The 2003 First Placing Shares were placed to not less than six placees. The placees and their respective ultimate beneficial owners are independent individuals, corporate and/or institutional investors who are not connected persons (as defined in the Listing Rules) of the Company. The placing agent is not a connected person (as defined in the Listing Rules) and does not own any shares of the Company. The 2003 First Placing Shares represented approximately 20.0% of the then existing issued capital of the Company and approximately 16.7% of the Company’s then enlarged capital. The net proceeds from the placement amounted to approximately HK\$6.9 million of which HK\$5.0 million was used for the partial repayment of the Easyknit Loan and the balance as general working capital.

The placement was completed in November 2003.

- (e) As announced by the Company on 27 November 2003, the Company conditionally agreed to place through its placing agent, Kingston Securities Limited, 9,916,856 new shares of HK\$0.40 each in the capital of the Company (the “2003 Second Placing Shares”) at a price of HK\$0.865 per share which represents a discount of approximately 2.8% to the closing price of HK\$0.89 per share quoted on the Stock Exchange on 21 November 2003, being the last full trading day of the Company’s shares prior to the date of the announcement.

The 2003 Second Placing Shares were placed to not less than six placees. The placees and their respective ultimate beneficial owners are independent individuals, corporate and/or institutional investors who are not connected persons (as defined in the Listing Rules) of the Company. The placing agent is not a connected person (as defined in the Listing Rules) and does not own any shares of the Company. The 2003 Second Placing Shares represented approximately 20.0% of the then existing issued capital of the Company and approximately 16.7% of the Company’s then enlarged capital. The net proceeds from the placement amounted to approximately HK\$8.4 million of which HK\$4.0 million was used for the further repayment of the Easykmit Loan and the balance as general working capital.

The placement was completed in December 2003.

- (f) In March 2004, the Company underwent another capital reorganisation (the “Second Reorganisation”). Details of the Second Reorganisation are set out in the circular dated 10 February 2004 issued by the Company.

At the special general meeting of the Company held on 4 March 2004, resolutions approving the Second Reorganisation were passed and the following capital reorganisation took effect on 4 March 2004:

- (i) unissued shares of HK\$0.40 each in the authorised share capital of the Company were subdivided into four shares of HK\$0.10 each;
  - (ii) nominal value of issued shares in the share capital of the Company was reduced from HK\$0.40 each to HK\$0.10 each (the “Second Capital Reduction”);
  - (iii) authorised share capital of the Company was increased from HK\$300,000,000 to HK\$650,000,000 by the creation of an additional 3,500,000,000 shares of HK\$0.10 each; and
  - (iv) the credit amount arising from the Second Capital Reduction was transferred to a capital reserve account of the Company where such amount may be applied in the future for distribution to the shareholders.
- (g) Rights issue of 297,505,700 shares of HK\$0.10 each at a subscription price of HK\$0.25 per rights share were allotted on 24 March 2004 to the shareholders of the Company in the proportion of five rights shares for every share then held. The net proceeds of the rights issue amounted to approximately HK\$73.2 million of which HK\$21,270,000 was used for repayment of the balance of the Easykmit Loan, HK\$50,000,000 for partial payment for the acquisition of the entire issued share capital of Po Cheong from a wholly-owned subsidiary of Easykmit, and for general working capital purposes.

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

**26. SHARE OPTION SCHEMES****(a) Share option schemes of the Company:**

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

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

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

The purposes of the 2002 Share Option Scheme are to attract and retain the best available personnel, to provide additional incentives to eligible participants and to promote the success of the business of the Company and its subsidiaries.

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

The maximum number of shares issuable upon the exercise of the share options granted to each eligible participant of the 2002 Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting of the Company with such grantee and his associate(s) abstaining from voting.

The exercise period of the share options is determined by the board of directors of the Company and shall end on a date which is not later than 10 years from the date of the grant of the option. There is no specific requirement under the 2002 Share Option Scheme that an option must be held for any minimum period before it can be exercised, but its terms provide that the board of directors of the Company has the discretion to impose a minimum period at the time of offer of any particular option. The offer of a grant of share options may be accepted within 14 days from the date of the offer, with the payment of a nominal consideration of HK\$1 in total by the offeree.

The exercise price in respect of any particular option of the 2002 Share Option Scheme may be determined by the board of directors of the Company in its absolute discretion and notified to each offeree but may not be less than the highest of (i) the closing price of the Company’s shares on the Stock Exchange as stated in the Stock Exchange’s daily quotations sheet on the date of offer, which must be a business day; (ii) the average closing price of the Company’s shares on the Stock Exchange as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Company’s shares on the date of offer.

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

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

Grantee	Share option scheme	Date of grant	Exercise period	Exercise price HK\$ (note iii)	Number of share options		
					At 1 April 2005	Lapsed during the year	At 31 March 2005
Former employees	1991	2 August 2000	2 August 2001 to 1 August 2010 (note i)	3,333	45,000	(45,000)	—
	1991	26 March 2001	26 March 2002 to 25 March 2011 (note i)	1,711	56,250	(56,250)	—
	2001	31 August 2001	31 August 2002 to 30 August 2011 (note i)	1,792	238,050	(238,050)	—
	2001	31 August 2001	31 August 2001 to 30 August 2011 (note ii)	1,792	5,625,000	—	5,625,000
					<u>5,964,300</u>	<u>(339,300)</u>	<u>5,625,000</u>

A summary of the movements of the outstanding share options during the fifteen months ended 31 March 2004 is as follows:

Grantee	Share option scheme	Date of grant	Exercise period	Exercise price <i>HK\$</i> <i>(note iii)</i>	Number of share options (adjusted as appropriate)				At 31 March 2004
					At 1 January 2003	Reclassification	Adjustments*	Lapsed during the period	
Former director	2001	31 August 2001	31 August 2001 to 30 August 2011 <i>(note ii)</i>	0.4032	25,000,000	(25,000,000)	—	—	—
Former employees	1991	2 August 2000	2 August 2001 to 1 August 2010 <i>(note i)</i>	0.75	2,075,000	—	(245,000)	(1,830,000)	—
				20.00*	—	—	9,187	(1,687)	—
				3.333*	—	—	(7,500)	—	—
							45,000	45,000	
	1991	6 October 2000	6 October 2001 to 5 October 2010 <i>(note i)</i>	0.47	290,000	—	—	(290,000)	—
	1991	26 March 2001	26 March 2002 to 25 March 2011 <i>(note i)</i>	0.385	3,775,000	—	(275,000)	(3,500,000)	—
				10.267*	—	—	10,312	(937)	—
				1.711*	—	—	(9,375)	—	—
							56,250	—	56,250
	2001	31 August 2001	31 August 2002 to 30 August 2011 <i>(note i)</i>	0.4032	7,068,000	—	(1,128,000)	(5,940,000)	—
				10.752*	—	—	42,300	(2,625)	—
							(39,675)	—	—
				1.792*	—	—	238,050	—	238,050
	2001	31 August 2001	31 August 2001 to 30 August 2011 <i>(note ii)</i>	0.4032	—	25,000,000	(25,000,000)	—	—
				10.752*	—	—	937,500	—	—
					—	—	(937,500)	—	—
				1.792*	—	—	5,625,000	—	5,625,000
					<u>38,208,000</u>	<u>—</u>	<u>(20,678,451)</u>	<u>(11,565,249)</u>	<u>5,964,300</u>

\* The number of share options and the corresponding exercise price have been adjusted as a result of share consolidation and rights issue of shares of the Company during the fifteen months ended 31 March 2004.

*Notes:*

- (i) The vesting period is the period of three years after the date of grant. One-third of the share options become exercisable after 12 months from the date of grant, and after the subsequent 18 months, 24 months, 30 months and 36 months from the date of grant, further one-sixth of the options become exercisable.
- (ii) The vesting period is the period from the date of grant to six months after the date of grant. Half of the share options are exercisable from the date of grant and the remaining half becomes exercisable after 6 months from the date of grant.
- (iii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

No share options were granted, exercised or cancelled during both accounting periods.

(b) **Share option schemes of subsidiaries:**(i) *solution100 Corporation*

On 22 May 2001, solution100 Corporation adopted a share option scheme under which options to subscribe for shares in the share capital of solution100 Corporation may be granted to the qualifying persons from time to time subject to the terms and conditions stipulated therein. No share options have been granted under the share option scheme of solution100 Corporation since its adoption.

solution100 Corporation ceased to be a subsidiary of the Company on 25 June 2004.

(ii) *i100 Wireless Corporation*

On 6 June 2002, i100 Wireless Corporation adopted a share option scheme pursuant to the then requirements of Chapter 17 of the Listing Rules and under which options to subscribe for shares in the share capital of i100 Wireless Corporation may be granted to the qualifying persons from time to time subject to the terms and conditions stipulated therein. No share options have been granted under the share option scheme of i100 Wireless Corporation since its adoption.

i100 Wireless Corporation ceased to be a subsidiary of the Company on 25 June 2004.

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

**27. RESERVES**

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	255,030	—	46,962	(408,157)	(106,165)
Premium arising from issue of new shares	61,344	—	—	—	61,344
Reduction of share capital and share premium upon capital reorganisations	(255,030)	17,850	354,198	—	117,018
Elimination of accumulated losses	—	—	(353,484)	353,484	—
Net loss for the period	—	—	—	(44,255)	(44,255)
At 31 March 2004	61,344	17,850	47,676	(98,928)	27,942
Net loss for the year	—	—	—	(1,978)	(1,978)
At 31 March 2005	<u>61,344</u>	<u>17,850</u>	<u>47,676</u>	<u>(100,906)</u>	<u>25,964</u>

The capital reserve of the Company represents the credit arising from the reduction of share capital of the Company in March 2004 and can be applied in the future for distribution to the shareholders.

The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the fair value of the subsidiaries' shares acquired under the group reorganisation in August 1991 and the credit arising from the reduction of share capital of the Company in February 2003 which may then be utilised by the directors in accordance with the Company's Bye-laws and all applicable laws, including to eliminate the accumulated losses of the Company.

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

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

The Company has no reserves available for distribution at 31 March 2005 and 2004.

## **28. AMOUNTS DUE TO SUBSIDIARIES**

### **THE COMPANY**

The amounts due to subsidiaries were unsecured and non-interest bearing. The amounts were fully repaid during the year.

## **29. ACQUISITION OF SUBSIDIARIES/A SUBSIDIARY**

On 17 May 2004, the Group acquired the entire issued shares of Po Cheong at a consideration of HK\$65,000,000, subject to adjustment, as described in the circular of the Company dated 23 April 2004. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. Acquisition of the subsidiaries was accounted for by the acquisition method of accounting. The total consideration of HK\$65,000,000 shall be satisfied in cash, of which HK\$50,000,000 was paid on 13 May 2004. Details of the arrangement of the consideration should be referred to the circular and the adjustment was finalised on 16 June 2005 (see note 36). The revised consideration was determined to be HK\$38,880,000 and accordingly, an amount of HK\$11,120,000 was recognised as consideration receivable in the consolidated balance sheet.

During the fifteen months 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\$1,000,000. 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>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	14,529	—
Inventories	3,010	—
Amounts due from shareholders	—	1,131
Trade and other receivables	19,973	—
Bank balances and cash	423	971
Trade and other payables	(10,751)	—
Bills payable	(1,837)	—
Bank loans	(8,775)	—
Minority interests	—	(209)
	<u>16,572</u>	<u>1,893</u>
Goodwill on acquisition	<u>23,042</u>	<u>104</u>
Total consideration	<u><u>39,614</u></u>	<u><u>1,997</u></u>
	<b>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Satisfied by:		
Cash paid	38,880	1,043
Expenses incurred in connection with acquisition	734	—
Reclassification of interest in a jointly controlled entity	—	954
	<u>39,614</u>	<u>1,997</u>
Net cash outflow arising on acquisition:		
Cash consideration paid	(38,880)	(1,043)
Expenses incurred in connection with acquisition	(734)	—
Bank balances and cash acquired	<u>423</u>	<u>971</u>
Net cash outflow of cash and cash equivalents in respect of the purchase of subsidiaries/a subsidiary	<u><u>(39,191)</u></u>	<u><u>(72)</u></u>

The subsidiaries acquired during the year contributed HK\$53,218,000 to the Group's turnover and HK\$6,018,000 to the Group's profit from operations.

## 30. DISPOSAL OF SUBSIDIARIES

In April 2004, the Group disposed of the entire issued shares in Photo2U Company Limited, a then wholly-owned subsidiary of the Company, for a cash consideration of HK\$2. In addition, as referred to in note 23, the Group disposed of i100 Wireless Corporation to the lender of the other loan on 25 June 2004.

During the fifteen months ended 31 March 2004, the Group disposed of the entire issued shares in i100Onair Limited, a then wholly-owned subsidiary of the Company, for a cash consideration of US\$1. In February 2004, the Group also disposed of the entire issued shares of Golden Throne Holdings Limited and Rainer Capital Limited which were then wholly-owned subsidiaries of the Company for a cash consideration of HK\$10.

The effect of the disposal is summarised as follows:

	<b>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net liabilities released/assets disposed of:		
Property, plant and equipment	568	387
Trade and other receivables	286	443
Bank balances and cash	15	115
Trade and other payables	(5,207)	(404)
Minority interests	(209)	—
	<u>(4,547)</u>	<u>541</u>
Exchange reserve realised on disposal of subsidiaries	16	(2)
Gain (loss) on disposal of subsidiaries	<u>9,042</u>	<u>(539)</u>
Total consideration	<u><u>4,511</u></u>	<u><u>—</u></u>
Satisfied by:		
Loan principal waived	4,000	—
Accrued interest thereof waived	<u>511</u>	<u>—</u>
	<u><u>4,511</u></u>	<u><u>—</u></u>
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	<u><u>(15)</u></u>	<u><u>(115)</u></u>

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

## 31. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

## THE GROUP

	<b>Accelerated tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2003	359	(359)	—
(Credit) charge to income statement for the period	(389)	389	—
Effect of change in tax rate	<u>34</u>	<u>(34)</u>	<u>—</u>
At 31 March 2004	4	(4)	—
(Credit) charge to income statement for the year on disposal of subsidiaries	<u>(4)</u>	<u>4</u>	<u>—</u>
At 31 March 2005	<u>—</u>	<u>—</u>	<u>—</u>

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

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax losses	11,968	189,674
Others	<u>—</u>	<u>2,179</u>
	<u>11,968</u>	<u>191,853</u>

No deferred tax asset has been recognised in respect of such deductible temporary differences due to the unpredictability of future profit streams. The tax losses at 31 March 2005 may be carried forward indefinitely. The tax losses at 31 March 2004, which amounted to approximately HK\$4,105,000, can only be carried forward for a maximum period of five years, other losses may be carried forward indefinitely.

At 31 March 2005 and 2004, the Company has unrecognised tax losses of approximately HK\$7,544,000 and HK\$5,205,000 respectively. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

## 32. CONTINGENT LIABILITIES

At 31 March 2005, the Company has given unlimited corporate guarantee to banks in respect of general banking facilities granted to its subsidiaries (2004: nil).

## 33. CAPITAL COMMITMENTS

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of:		
— acquisition of land use rights	9,538	—
— construction of plants	19,080	—
— acquisition of property, plant and equipment	—	9,923
— acquisition of the entire issued shares of Po Cheong	—	65,000
— capital injection for interests in a jointly controlled entity and a non wholly-owned subsidiary	20,904	20,904
	<u>49,522</u>	<u>95,827</u>

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

## 34. OPERATING LEASE ARRANGEMENTS

	<b>THE GROUP</b>	
	<b>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payments recognised in the consolidated income statement during the year/period	<u>1,097</u>	<u>1,855</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:

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,376	654
In the second to fifth year inclusive	5,470	1,695
Over five years	3,246	2,870
	<u>10,092</u>	<u>5,219</u>

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for lease terms ranging from 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 Company had no significant lease commitments at the balance sheet date.

### 35. RETIREMENT BENEFITS SCHEMES

The Group operates defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance. 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.

Prior to the MPF Scheme becoming effective, the Group operates a defined contribution retirement benefits scheme (the “ORSO Scheme”) under the Occupational Retirement Schemes Ordinance, for those employees who were eligible to participate. The ORSO Scheme operates in a similar way to the MPF Scheme, except that when an employee leaves the ORSO Scheme before his/her interest in the Group’s employer contributions vesting fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited contributions. With effect from 1 December 2000, the Group operates both schemes and those employees who are not eligible to participate in the ORSO Scheme are eligible to participate in the MPF Scheme.

The assets of both schemes are held separately from those of the Group in independently administered funds.

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.

There were no forfeited contributions utilised to offset employers’ contributions for the period/year. The employers’ contributions which have been dealt with in the income statement of the Group were as follows:

	<b>THE GROUP</b>	
	<b>1.4.2004 to 31.3.2005</b>	<b>1.1.2003 to 31.3.2004</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Employers’ contributions charged to the consolidated income statement	<u>87</u>	<u>410</u>

At the balance sheet date, there was no forfeited contributions available to reduce the contributions payable in the future years.

### 36. POST BALANCE SHEET EVENT

On 16 June 2005, the Company announced that the consideration of the acquisition of the entire issued shares of Po Cheong from EITC, a wholly-owned subsidiary of Easyknit, 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 circular of the Company dated 23 April 2004. According to the adjustment mechanism, when seven times of the audited consolidated results of the Po Cheong group is less than HK\$65,000,000, the consideration of the acquisition shall be adjusted downwards by the amount of such shortfall. As a result, instead of receiving the balance of the consideration of HK\$15,000,000, EITC shall compensate Best Ability Limited, a wholly-owned subsidiary of the Company 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.

## Financial Summary

## RESULTS

	<b>1.1.2000</b> to <b>31.12.2000</b> <i>HK\$'000</i>	<b>1.1.2001</b> to <b>31.12.2001</b> <i>HK\$'000</i>	<b>1.1.2002</b> to <b>31.12.2002</b> <i>HK\$'000</i>	<b>1.1.2003</b> to <b>31.3.2004</b> <i>HK\$'000</i>	<b>1.4.2004</b> to <b>31.3.2005</b> <i>HK\$'000</i>
Turnover	<u>247,003</u>	<u>198,134</u>	<u>70,354</u>	<u>5,083</u>	<u>53,662</u>
(Loss) profit before taxation	(130,111)	(119,299)	(191,293)	(57,737)	6,104
Taxation (charge) credit	<u>(3,056)</u>	<u>570</u>	<u>309</u>	<u>—</u>	<u>—</u>
(Loss) profit before minority interests	(133,167)	(118,729)	(190,984)	(57,737)	6,104
Minority interests	<u>587</u>	<u>269</u>	<u>(440)</u>	<u>—</u>	<u>—</u>
Net (loss) profit for the year/period	<u>(132,580)</u>	<u>(118,460)</u>	<u>(191,424)</u>	<u>(57,737)</u>	<u>6,104</u>

## ASSETS AND LIABILITIES

	<b>At 31 December</b>			<b>At 31 March</b>	
	<b>2000</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Total assets	306,387	167,124	19,868	69,134	119,667
Total liabilities	(59,783)	(39,442)	(8,149)	(11,069)	(55,646)
Minority interests	<u>(1,437)</u>	<u>(829)</u>	<u>—</u>	<u>(209)</u>	<u>—</u>
Shareholders' funds	<u>245,167</u>	<u>126,853</u>	<u>11,719</u>	<u>57,856</u>	<u>64,021</u>

## 3. INDEBTEDNESS

At the close of business on 30 November 2005, being the latest practicable date for ascertaining this indebtedness prior to the printing of this circular, the Group had in aggregate import bank loans of approximately HK\$1,067,000.

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 30 November 2005 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 30 November 2005.

#### 4. WORKING CAPITAL

Taking into account the financial and trading prospects for the Group discussed in the section headed “Financial and trading prospects of the Group” set out on pages 9 to 10 of this circular, the Directors are of the opinion that, with the internal resources and existing banking facilities available, the Group has sufficient working capital for its day to day operations for a period of at least 12 months commencing from the date of this circular.

#### 5. MATERIAL ADVERSE CHANGE

Apart from the acquisition of the Property and the deposit paid for the Construction as disclosed in the unaudited interim results for the six months ended 30 September 2005 of the Group and as set out in this circular, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 March 2005, the date to which the latest published audited consolidated financial statements were made up.

#### 6. BUSINESS REVIEW OF THE GROUP

Set out below are the reproduction of the “management discussion and analysis” section of the Group for the year ended 31 December 2002, the 15 months ended 31 March 2004 and the year ended 31 March 2005 contained in the Company’s annual reports for the corresponding years/period.

##### **For the year ended 31 December 2002**

##### *Financial review*

##### *Revenue*

Turnover of the Group was HK\$70 million, a 64% decrease from the previous year. The decrease in revenue was due to the disposal of the Group’s entire shareholding in (i) Acme Sanitary Engineering Company Limited, which is engaged in the business of the provision of drainage, plumbing and engineering contracting services, on 4 May 2002 and (ii) Acme Landis Operations Holdings Limited, which is engaged in the business of trading of sanitary fixtures and fittings and a range of hardware, industrial and consumer products, on 29 May 2002. Save for the disposal of Acme Landis business disclosed above, there is no change in market segment. It is the Group’s strategy to concentrate on its wireless communication business. There are no material changes in other industry segment nor material developments within the segment other than wireless communication business.

##### *Gross Margin*

Gross margin increased to 26%, compared to 14% in the previous year, primary due to an overall increase in gross margin from Acme Sanitary Engineering Company Limited and Acme Landis Operations Holdings Limited before the disposals in May 2002.

*Operating expenses*

The Group's loss was HK\$191.4 million which included provision of HK\$42.1 million for a loan to Acme Landis Operations Holdings Limited ("Acme Landis"), provision of HK\$14.2 million for loans to an associate, impaired goodwill of an associate of HK\$48.8 million, loss on discontinued operations of HK\$4.6 million, impairment loss of fixed assets of HK\$0.8 million, provision for bad debts of HK\$6.1 million (net) and share of loss of an associate of HK\$14.0 million. The outstanding loan balance due from Acme Landis as at 31 December 2002 was HK\$45.8 million which is secured by a pledge in respect of 76 million shares of the Company. On prudence basis, provision of HK\$42.1 million is made to reflect the market value of the pledged shares as at 31 December 2002. The provision of HK\$14.2 million for loans to an associate is made because the proposed listing exercise of that associate is delayed. Loans were advanced to that associate mainly for its working capital requirements. Full provision is made because that associate has limited tangible assets and is unlikely to have sufficient funding to repay the outstanding amount in the near future. An impairment of goodwill on acquisition of an associate which was previously eliminated against consolidated reserves was recognized amounting to HK\$48.8 million in the fiscal 2002. The Group has the opinion that the associate is unlikely to generate sufficient profit and cashflow in the near future to match with the related goodwill because the proposed listing exercise of one of the subsidiary of that associate was delayed. The loss on discontinued operations of HK\$4.6 million arose from the disposal of Acme Landis Division in May 2002. Impairment loss of fixed assets of HK\$0.8 million was for furniture, fixtures, and equipment. The net provision of bad debt of HK\$6.1 million included a provision for bad debt of HK\$7.2 million which was made for other receivables because the debtor requested a change of selling price after the transaction was completed and the Group refused. Full provision is made on prudence basis. The share of loss of an associate of HK\$14.0 million was related to an associate which the Group owns 49%.

The Group has capital commitments of HK\$24.2 million related to the Group's interests in jointly-controlled entities and non-wholly-owned subsidiaries. Save as disclosed above, the Group has no other plans for material investments or capital assets, except for the Group's development of the wireless business.

*Liquidity, Financial Resources and Capital Structure*

As at 31 December 2002, the total shareholders' equity of the Group was approximately HK\$11.7 million, a decrease of 90.8% over that as at 31 December 2001. At the balance sheet date, the cash and cash equivalents stood at HK\$1.8 million. The Group's cash is primarily in Hong Kong and US Dollars, and placed in leading commercial banks as time deposits with various maturities. There was no bank borrowing as at the balance sheet date, compared with that of HK\$4.3 million last year. The Group has no material exposure to fluctuations in exchange rates and any related hedges.

During the year, the group acquired the business of Digital Empires Company Limited for a consideration of HK\$502,500 which was satisfied by the issuance of 2,500 ordinary shares of solution100 Limited of HK\$1 each, a wholly-owned subsidiary of the Company, and cash of HK\$500,000. The consolidated net assets acquired were approximately HK\$18,000.

*Charges on Group Assets*

There was no charge on the Group's assets as at 31 December 2002.

*Contingent Liabilities*

As at 31 December 2002, the Group had contingent liabilities of approximately HK\$87.1 million in respect of bank guarantees given to secure banking facilities granted to certain subsidiaries which were disposed of by the Group in May 2002. Such guarantees were released by the relevant banks subsequent to the close of business on 31 December 2002. There are no other contingent liabilities of the Group.

*Employees and Remuneration Policies*

As at 31 December 2002, the Group employed approximately 80 full time management, technical and administrative staff in Hong Kong and elsewhere in the People's Republic of China (the "PRC"). The Group remunerates its employees based on their performance, experience and prevailing industry standards. The Group has a share option scheme to motivate valued employees.

*Placing of New Shares*

On 4 June 2002, the Group announced that i100 Capital Corporation, a substantial shareholder of the Company, placed 124 million shares of the Company to more than six independent professional and/or institutional investors at a price of HK\$0.3 per share ("Placing Price"). The Placing Price represented a discount of approximately 24.1% to the closing price of HK\$0.395 per share on 3 June 2002.

On the same date, i100 Capital Corporation agreed to subscribe for 100 million new shares issued by the Company at the price equal to the Placing Price less all expenses incurred in connection with the private placement. The new shares issued represented approximately 10% of the Group's issued share capital immediately before the private placement and approximately 9.1% of the enlarged issued share capital. The net proceeds of the subscription of approximately HK\$29 million were used for development in wireless data service and as general working capital of the Group. All shares issued rank pari passu with the existing shares in issue in all respects.

*Review of operations**solution100*

The Group has redirected the extensive technological and market expertise of its wireless solutions arm, solution100, to support the wireless data service. This is a contingency tactic for solution100, as its traditional business environment remains subdued from reduced corporate IT spending.

*Wireless Data Service*

The Group's wholly-owned subsidiary, i100 Wireless (Hong Kong) Limited, is principally engaged in the provision of a branded wireless data services as a full service mobile operator using MVNO (Mobile Virtual Network Operator) business structure in Hong Kong. The key principle of the service is a GPRS-driven and entertainment focus wireless data service supported by international content providers, leading wireless games companies and major telecommunication carriers that fits with our target audience's mobile lifestyle. We believe the future of the mobile data business remains promising and we will continue to strive to become a leader in this market.

*Legacy Businesses*

Resources from legacy business Ask100 and OnAir100 continue to be adapted and utilized to develop the wireless data business. The subscriber data base, community base, content links and technical expertise of the team have been put to full use in Wireless data services.

*Acme Landis*

The Acme Landis business, which is engaged in the business of the provision of drainage, plumbing and engineering contracting services, trading of sanitary fixtures and fittings and a range of hardware, industrial and consumer products, suffered negative growth in turnover and consequently higher losses were recorded. The Group sold its entire shareholding in Acme Landis in May 2002.

**For the 15 months ended 31 March 2004***Financial results*

The Group's turnover and net loss for the fifteen months ended 31 March 2004 were approximately HK\$5,083,000 (for the year ended 31 December 2002: approximately HK\$70,354,000) and approximately HK\$57,737,000 (for the year ended 31 December 2002: approximately HK\$191,424,000), respectively, representing a decrease of approximately 92.8% and approximately 69.8% respectively when compared to the year ended 31 December 2002.

The decrease in turnover was mainly due to the disposal of the Group's entire shareholding in (i) Acme Sanitary Engineering Company Limited ("Acme Sanitary"), formerly a wholly-owned subsidiary of the Company which was engaged in the business of the provision of drainage, plumbing and engineering contracting services, on 4 May 2002 and (ii) Acme Landis Operations Holdings Limited ("Acme Landis"), formerly a wholly-owned subsidiary of the Company which was engaged in the business of trading of sanitary fixtures and fittings and a range of hardware, industrial and consumer products, on 29 May 2002.

The Group's net loss for the fifteen months ended 31 March 2004 amounted to approximately HK\$57,737,000 which includes impairment loss recognised in respect of long term investments of approximately HK\$3,900,000 and impairment loss recognised in respect of property, plant and equipment of approximately HK\$9,971,000. The Group's operating expenses for the period under review were approximately HK\$38,962,000 compared to approximately HK\$81,116,000 for the year ended 31 December 2002 and the decrease was mainly due to the disposal of Acme Sanitary and Acme Landis.

### *Business review*

During the fifteen months ended 31 March 2004, the Group was principally engaged in wireless communication business, provision of communication solutions consultancy services and internet operations.

During the period under review, the Company's former wholly-owned subsidiary, i100 Wireless (Hong Kong) Limited, was engaged in the provision of a branded wireless data services in Hong Kong. The key principal service was a GPRS (general packet radio service)-driven and entertainment focused wireless data service supported by international content providers, leading wireless games companies and major telecommunication carriers that accommodated the lifestyle of the Group's target users.

The Group launched its 2.5G MVNO (mobile virtual network operator) business in October 2002, under the trade name Noodle. Noodle's technical platform was based on GPRS, the most popular 2.5G data technology used in Hong Kong. It offered its customers a wide array of mobile content such as games, up-to-date news, horoscopes, sports and other entertainment topics. Noodle mainly targeted the younger market for its services.

In June 2003, Noodle transferred all the active customer accounts of its 2.5G MVNO business to SUNDAY. Hence, i100 Wireless (Hong Kong) Limited became a content provider to SUNDAY. However, the wireless communication business still suffered from huge losses.

### *Prospects*

The general economic climate affected the mobile communication business of the Group in Hong Kong. The Group will continue to streamline its operation in this business segment.

After the completion of the Po Cheong Acquisition (as defined in the section headed “Significant Corporate Events” below) on 17 May 2004, the bleaching and dyeing business of Po Cheong and its subsidiary is expected to contribute positively to the Group’s profitability.

The Group will continue to explore potential investment projects or businesses with a view to diversify and expand its source of income.

### *Significant corporate events*

On 28 January 2003, Easyknit, through its wholly-owned subsidiary, Landmark Profits Limited, acquired approximately 55.27% equity interest of the Company and subsequently made a mandatory general offer for the shares that it did not own. The general offer resulted in Easyknit holding approximately 55.30% equity interest of the Company as at 14 April 2003. A series of disposal of the Company’s shares in June 2003 brought Easyknit’s interest in the Company down to approximately 51.73% as at 30 June 2003.

As a result of the capital reorganisation which came into effect on 10 February 2003, the then issued share capital of the Company was reduced from HK\$110,187,300 to HK\$11,018,730 comprising 1,101,873,000 shares of HK\$0.01 each.

On 8 September 2003, every 40 issued and unissued shares of the Company of HK\$0.01 each were consolidated into one consolidated share of HK\$0.40 each. Immediately following the share consolidation, the share capital of the Company comprised 27,546,825 issued shares of HK\$0.40 each and 722,453,175 unissued shares of HK\$0.40 each.

On 25 September 2003, the Company issued 13,773,412 rights shares at a price of HK\$1.00 per rights share (the “First Rights Issue”) and raised net proceeds of approximately HK\$13,300,000 for general working capital purposes.

On 17 November 2003, 8,264,047 shares of HK\$0.40 each were issued and allotted by the Company at a price of HK\$0.865 per placing share by way of placing (the “First Placing”). The net proceeds of the First Placing were approximately HK\$6,900,000 of which HK\$5,000,000 has been used for partial repayment of an unsecured interest-bearing loan of HK\$30,270,000 (“Easyknit Loan”) extended by Planetic International Limited (a wholly owned subsidiary of Easyknit) to the Group in February 2003 and approximately HK\$1,900,000 are used as general working capital.

On 22 December 2003, the Company issued and allotted 9,916,856 shares of HK\$0.40 each at a price of HK\$0.865 per placing share by way of placing (the “Second Placing”). Out of the net proceeds of the Second Placing of approximately HK\$8,400,000, HK\$4,000,000 has been used for partial repayment of Easyknit Loan. The remaining net proceeds of approximately HK\$4,400,000 are for general working capital purposes.

As a result of the First Rights Issue, the First Placing and the Second Placing, the then issued share capital of the Company were increased to HK\$23,800,456 comprising 59,501,140 shares of HK\$0.40 each. Subsequent to the completion of the First Placing and the Second Placing, Easyknit's interest in the Company has been diluted to approximately 35.93% of the then issued share capital of the Company.

With effect from 19 November 2003, the name of the Company has been changed from “i100 Limited” to “Asia Alliance Holdings Limited” and the Chinese name “亞洲聯盟集團有限公司” has been adopted by the Company for identification purposes.

On 4 March 2004, the then issued share capital of the Company was reduced to HK\$5,950,114 consisting of 59,501,140 shares of HK\$0.10 each and the authorised share capital of the Company was increased to HK\$650,000,000 comprising 6,500,000,000 shares of HK\$0.10 each.

On 24 March 2004, the Company raised approximately HK\$73,200,000 (net of expenses) by way of the rights issue of 297,505,700 rights shares at a price of HK\$0.25 per rights share on the basis of five rights shares for every share held (the “Second Rights Issue”). Out of such proceeds, approximately HK\$22,000,000 has been used to repay the Easyknit Loan and the remaining balance of approximately HK\$51,000,000 has been applied for partial payment in respect of the Po Cheong Acquisition (as defined below). As a result of the Second Rights Issue, the issued share capital of the Company has been increased to HK\$35,700,684 comprising 357,006,840 shares of HK\$0.10 each.

On 17 May 2004, the acquisition of the entire issued share capital of Po Cheong International Enterprises Limited (“Po Cheong”) at a total consideration of HK\$65,000,000 (subject to adjustment) (the “Po Cheong Acquisition”) by Best Ability Limited, a wholly-owned subsidiary of the Company, from Easyknit International Trading Company Limited, a wholly-owned subsidiary of Easyknit, was completed and Po Cheong has become a wholly-owned subsidiary of the Company. Po Cheong and its subsidiary are principally engaged in the business of bleaching and dyeing.

On 15 June 2004, the Company entered into an agreement (the “Agreement”) with each of Mr. Louie Tsz Chung and Ms. Koon Po Fun, pursuant to which, amongst other things, the Group has agreed to sell fabrics and provide bleaching and dyeing services to the companies controlled by Mr. Louie Tsz Chung/companies controlled by Ms. Koon Po Fun respectively for the period from 17 May 2004 to 31 March 2007 subject to respective caps. The respective transactions (the “Ongoing Connected Transactions”) contemplated under the Agreement with each of Mr. Louie Tsz Chung and Ms. Koon Po Fun constitute non-exempt continuing connected transactions of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and are subject to reporting and independent shareholders' approval at the special general meeting of the Company to be held on 25 August 2004. Details of the Ongoing Connected Transactions are set out in the circular of the Company dated 26 July 2004.

On 25 June 2004, Coplestone Limited (“Coplestone”), a wholly owned subsidiary of the Company, and Arco Consulting Inc. (“Arco”), a third party independent of the Company, entered into a settlement agreement (the “Settlement Agreement”). Pursuant to the Settlement Agreement, inter alia, the facility agreement entered into on 6 January 2003 between Coplestone as borrower and Arco as lender relating to a term loan facility of up to HK\$4,000,000 (the “Facility Loan”) secured by all

the shares in the share capital of i100 Wireless Corporation held by Copplestone was terminated and Copplestone transferred the entire issued share capital of i100 Wireless Corporation to Arco. The disposal of i100 Wireless Corporation constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Details of the Settlement Agreement and the disposal of i100 Wireless Corporation are set out in the announcement of the Company dated 14 July 2004.

### *Liquidity and financial resources*

During the period under review, the Group obtained the Easyknit Loan of HK\$30,270,000 which has been fully repaid in March 2004 and the Facility Loan of HK\$4,000,000. Both loans bore interest at market rate and were repayable on demand. The Group's total borrowings at 31 March 2004 were HK\$4,000,000. During the period under review, the Group raised aggregate net proceeds of approximately HK\$101,800,000 from the First Rights Issue, the First Placing, the Second Placing and the Second Rights Issue. As at 31 March 2004, the remaining balance of the net proceeds was approximately HK\$65,856,000. During the fifteen months ended 31 March 2004, the Group's operation was mainly financed by the Easyknit Loan, the Facility Loan and the net proceeds of the aforesaid fund raising exercises.

As at 31 March 2004, the Group had net current assets of approximately HK\$56,997,000 (net current liabilities as at 31 December 2002: approximately HK\$3,521,000) and cash and cash equivalents of approximately HK\$66,131,000 (31 December 2002: approximately HK\$1,822,000). The Group's cash is primarily in Hong Kong and US dollars and placed in leading commercial banks as time deposits with various maturities.

As at 31 March 2004, the Group had a gearing ratio of 6.9%. The gearing ratio is calculated on the basis of the Group's total borrowings of HK\$4,000,000 over the shareholders' fund of HK\$57,856,000. As the Group had no borrowings as at 31 December 2002, no gearing ratio of the Group is presented at 31 December 2002.

The directors believe that the Group has sufficient working capital for its operations.

### *Exposure to fluctuations in exchange rates and related hedges*

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

### *Capital structure*

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

### *Material acquisitions and disposals*

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

*Charges on Group assets*

As at 31 March 2004, the Facility Loan of HK\$4,000,000 from an independent third party was secured by all the issued shares of i100 Wireless Corporation, a former wholly-owned subsidiary of the Company.

*Capital expenditure*

During the fifteen months ended 31 March 2004, the Group spent approximately HK\$12,125,000 on acquisition of property, plant and equipment.

*Contingent liabilities*

As at 31 March 2004, the Group did not have any contingent liabilities.

*Significant investment*

As at 31 March 2004, the Group did not have any significant investment held or any significant investment plans.

*Employees and remuneration policies*

As at 31 March 2004, the Group employed approximately 29 full time management, technical and administrative staff in Hong Kong and elsewhere in the People's Republic of China. Employees' cost (including directors' emoluments) amounted to approximately HK\$12,737,000 for the period under review. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has share option schemes to motivate valued employees.

**For the year ended 31 March 2005***Financial results*

For the year under review, the Group attained notable growth in both turnover and profit. Turnover soared more than ninefold from approximately HK\$5,083,000 for the fifteen months ended 31 March 2004 (the "Last Period") to approximately HK\$53,662,000 for the year ended 31 March 2005. This drastic increase was predominately due to the acquisition of the bleaching and dyeing business in May 2004.

Gross profit for the year ended 31 March 2005 shot up nearly five times to approximately HK\$9,962,000 from approximately HK\$1,731,000 in the Last Period. Net profit attributable to shareholders amounted to approximately HK\$6,104,000, reversing the net loss of approximately HK\$57,737,000 in the Last Period. This remarkable change resulted largely from a gain of approximately HK\$9,042,000 on the disposal of the persistent loss-making wireless communication

business in June 2004 and a profit of approximately HK\$4,095,000 derived from the bleaching and dyeing business during the year. This was partly offset by the loss of approximately HK\$2,370,000 recorded in the knitting business. Earnings per share were approximately HK\$0.02 (Last Period: loss per share of approximately HK\$0.97).

Cost of sales and services leaped twelve times to approximately HK\$43,700,000 for the year compared to approximately HK\$3,352,000 in the Last Period, reflecting the robust growth in sales. The Group's total operating expenses were down approximately 68.3% to approximately HK\$12,355,000 for the year from approximately HK\$38,962,000 in the Last Period. This was mainly on account of the savings in salaries, rentals and other operating expenses following the disposal of the wireless communication business in June 2004, which was partly offset by the costs of running the garment related businesses.

Finance costs declined significantly by approximately 78.4% to approximately HK\$424,000 from approximately HK\$1,960,000 in the Last Period, principally by reason of repayment of a loan of HK\$30,270,000 from Easyknit International Holdings Limited ("Easyknit") in March 2004 and settlement of the Facility Loan (as defined in "Business Review" below) of HK\$4,000,000 in June 2004, which was partly offset by the bank loans drawn by the Group during the year.

### *Business review*

During the year ended 31 March 2005, the Group experienced major changes in operations following the acquisition of Po Cheong International Enterprises Limited ("Po Cheong") in May 2004 which has introduced bleaching and dyeing business to the Group, the streamlining of the wireless communication business, communication solutions consultancy services and internet operations of the Group, which continued to suffer substantial losses in the past few years, and the commencement of production of a knitting mill in the People's Republic of China (the "PRC") in May 2004. As a result of the above events, the Group became principally engaged in the business of bleaching, dyeing and knitting during the year under review.

On 5 March 2004, Best Ability Limited, a wholly-owned subsidiary of the Company, as purchaser entered into an agreement with Easyknit International Trading Company Limited, a wholly-owned subsidiary of Easyknit, a controlling shareholder of the Company, as vendor whereby Best Ability Limited conditionally agreed to purchase from Easyknit International Trading Company Limited all the issued shares of Po Cheong at a consideration of HK\$65,000,000 (the "Acquisition"). The consideration of the Acquisition has been subsequently adjusted down to HK\$38,879,778 (the "Adjustment"). The Acquisition constituted a major and connected transaction of the Company under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the Acquisition and the Adjustment are set out in the circular of the Company dated 23 April 2004 and the joint announcement of Easyknit and the Company dated 16 June 2005 respectively.

On 25 June 2004, Copplestone Limited ("Copplestone"), a wholly-owned subsidiary of the Company, and Arco Consulting Inc. ("Arco"), a third party independent of the Company, entered into a settlement agreement (the "Settlement Agreement") for the full settlement of a loan of HK\$4,000,000 (the "Facility Loan") provided by Arco to Copplestone pursuant to a facility agreement

dated 6 January 2003 between both parties together with the accrued interest of HK\$511,000 (up to the date of the Settlement Agreement) by way of transferring all the issued shares of i100 Wireless Corporation, a then wholly-owned subsidiary of Coplestone, to Arco. i100 Wireless Corporation and its subsidiaries were principally engaged in the wireless communication business. The disposal of i100 Wireless Corporation (the “Disposal”) constituted a discloseable transaction of the Company under the Listing Rules. Details of the Settlement Agreement and the Disposal are set out in the circular of the Company dated 4 August 2004.

To strengthen its manufacturing operations and the capability of its existing main business, the Group has decided to develop a multi-functional base in Huzhou City, Zhejiang Province, the PRC. On 24 December 2004 and 28 December 2004, Easyknit (Mauritius) Limited, a wholly-owned subsidiary of the Company, and the People’s Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, the PRC (the “Vendor”) entered into an agreement and a supplemental agreement respectively in relation to the acquisition by Easyknit (Mauritius) Limited of land of about 670 mu situated at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, the PRC and the South of Hengtang Harbour, the PRC (the “Property”) at a consideration of RMB10,050,000 (the “Land Acquisition”), the construction of a waste water treatment plant on the Property at a cost of not more than HK\$30,000,000 (the “Construction”) and the proposed development of manufacturing operations on the Property, including garment manufacturing, bleaching and dyeing and knitting (the “Development”) (the Land Acquisition, the Construction and the Development are together, the “Huzhou Project”). Phase 1 of the Huzhou Project which involves the Land Acquisition, the Construction and the setting up of garment manufacturing and bleaching and dyeing capabilities constituted a very substantial acquisition of the Company under the Listing Rules. Details of phase 1 of the Huzhou Project are set out in the circular of the Company dated 21 February 2005. On 18 April 2005, a second supplemental agreement was entered into between Easyknit (Mauritius) Limited and the Vendor in relation to the reduction of the size of the Property to 632.289 mu and the consideration of the Land Acquisition to RMB9,484,335, the way in which the Construction be held, and the appointment of the Vendor as an agent to deal with matters in relation to the Construction subject to the terms contained therein. The consideration of the Land Acquisition of RMB9,484,335 and a deposit for the Construction of HK\$15,000,000 were paid in April 2005. According to an indicative timetable, the Group will strive to complete the garment manufacturing and bleaching and dyeing capabilities by early 2006 and the knitting capability by the end of 2006.

During the year ended 31 March 2005, the bleaching and dyeing business contributed to approximately 99.2% of the Group’s total turnover, amounting to approximately HK\$53,218,000. The Group’s bleaching and dyeing factory located in Dongguan, the PRC currently has a daily production capacity of about 30,000 pounds.

The knitting mill in Heyuan, the PRC commenced production in May 2004 with a daily production capacity of about 20,000 pounds. Turnover in the knitting services only accounted for approximately 0.8% of the Group’s total turnover for the year ended 31 March 2005 and its share is expected to grow going forward.

Geographically, almost all the Group’s customers were located in the PRC.

*Prospects*

To stem a rising tide of the Chinese textile imports following the lifting of the global trade quotas on textiles on 1 January 2005, the United States of America (the “US”), in May 2005, imposed safeguard quotas limiting the increase in 7 categories of Chinese textile imports to 7.5 % this year by relying upon the terms of the PRC’s accession to World Trade Organisation (the “WTO”). The PRC abolished its self-imposed export tariffs on 81 categories of textile products in June 2005, escalating trade tensions with the US. In June 2005, the European Union (the “EU”) and the PRC also agreed to limit the growth of 10 categories of Chinese textile products to the EU to between 8% and 12.5% a year until the end of 2007. Our customers whose garment products are mainly sold to the US and the EU member countries are likely to be affected and may in turn impact the business of the Group. We will constantly monitor the market conditions and adjust accordingly.

The directors are of the view that the long-term prospect of the textile and apparel industry is promising as the WTO China textile safeguard mechanism will be in effect only until 31 December 2008 and progressive liberalisation of textile trade is inevitable. More importantly, the PRC is experiencing strong economic growth which has elevated the living standard for part of its population and will in turn spur the domestic demand for high quality textile products. We believe that the setting up of a multi-functional base in Huzhou City, Zhejiang Province, the PRC for developing vertical integrated operations ranging from knitting, bleaching and dyeing and garment manufacturing will not only consolidate and significantly increase the Group’s manufacturing capabilities, but will also help to minimise cost, maximise efficiency and increase the Group’s competitiveness so as to pave the way for future business growth in the challenging but expanding textile industry.

The management remains cautiously optimistic about the results for the first half year ended 30 September 2005 based on the orders on hand. It is believed that the bleaching and dyeing business will continue to make positive contribution to the Group. We also anticipate the production of the knitting mill in Heyuan, the PRC will grow steadily. Coupled with our stable clientele, improved efficiency, advanced production facilities and experienced management team, we are confident that the Group will eventually benefit from the booming economy.

The Group will endeavour to provide high quality fabric products to its customers, further expand its sourcing network and customer base and implement an effective control in production cost and pricing strategy in order to generate higher returns to its shareholders.

*Liquidity and Financial Resources*

During the year ended 31 March 2005, the Group financed its operations mainly by net proceeds from the fund raising exercises conducted in 2003 and 2004, the Facility Loan of HK\$4,000,000, bank borrowings and internally generated resources. In June 2004, the Facility Loan together with its accrued interests was settled. As at 31 March 2005, the Group’s total bank borrowings amounted to approximately HK\$46,406,000 (31 March 2004: Nil), of which approximately 66.8% being short-term borrowings and approximately 33.2% being long-term borrowings. All the loans are unsecured, denominated in Hong Kong dollars and charged at prevailing market interest rates. Approximately HK\$21,406,000 of the bank borrowings are repayable in instalments over a period of four years and approximately HK\$25,000,000 are repayable within one year and guaranteed by a personal guarantee

from Mr. Koon Wing Yee, who is a director of the Company. They are mostly event driven, with little seasonality. Shareholders' fund of the Group as at 31 March 2005 was approximately HK\$64,021,000 (31 March 2004: approximately HK\$57,856,000). The Group's gearing ratio, which was calculated based on the total borrowings to the shareholders' fund, rose from approximately 0.069 as at 31 March 2004 to approximately 0.725 as at 31 March 2005.

The Group continued to sustain a liquidity position. As at 31 March 2005, the Group had net current assets of approximately HK\$34,659,000 (31 March 2004: approximately HK\$56,997,000) and cash and cash equivalents of approximately HK\$33,352,000 (31 March 2004: approximately HK\$66,131,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and Renminbi. As at 31 March 2005, the Group's current ratio was approximately 1.9 (31 March 2004: approximately 6.1), which was calculated on the basis of current assets of approximately HK\$74,884,000 (31 March 2004: approximately HK\$68,066,000) to current liabilities of approximately HK\$40,225,000 (31 March 2004: approximately HK\$11,069,000). The current ratio deteriorated during the year, primarily as a result of the acquisition of the bleaching and dyeing business, setting up of the knitting mill and investment in the Huzhou Project which not only reduced the bank and cash balance but also increased the Group's liabilities. During the year under review, the Group serviced its debts primarily through cash earned from its operations.

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

#### *Exposure to Fluctuations in Exchange Rates and Related Hedges*

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

#### *Capital Structure*

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

#### *Material Acquisitions and Disposals*

Apart from the acquisition of Po Cheong and the disposal of i100 Wireless Corporation as disclosed in "Business Review" above, the Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 March 2005.

#### *Charges on Group Assets*

The Group did not have any charges on assets as at 31 March 2005.

***Capital Expenditure and Capital Commitments***

During the year ended 31 March 2005, the Group spent approximately HK\$26,308,000 (Last Period: approximately HK\$12,125,000) on acquisition of property, plant and equipment, of which approximately HK\$14,529,000 (Last Period: Nil) was related to the acquisition of subsidiaries.

As at 31 March 2005, the Group had capital commitments of approximately HK\$49,522,000 (31 March 2004: approximately HK\$95,827,000).

***Contingent Liabilities***

As at 31 March 2005, the Group's banking facilities of approximately HK\$47,606,000 (31 March 2004: Nil) were supported by the Company's unlimited guarantee and unlimited cross guarantee provided by two of its subsidiaries in favour of the bank.

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

***Significant Investment***

Apart from the Huzhou Project as disclosed in "Business Review" above, the Group did not have any significant investment plans or any significant investment held as at 31 March 2005. The Group will make use of its existing bank facilities for the Construction if further funding is required. The costs for the Development in the sum of HK\$160,000,000 will be financed through bank borrowing or other forms of financing available. As at the date hereof, no member of Group is a party to any financing arrangement in respect thereof.

***Employment and Remuneration Policy***

As at 31 March 2005, the Group employed approximately 300 full time management, technical, administrative staff and workers in Hong Kong and elsewhere in the PRC. Employees' cost (including directors' emoluments) amounted to approximately HK\$5,121,000 for the year under review (Last Period: approximately HK\$12,737,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has adopted the Mandatory Provident Fund for the Hong Kong employees and has made contributions to the stated-sponsored pension scheme operated by the PRC government for the PRC employees. The Group has a share option scheme to motivate valued employees.

## 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 inquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the shares, underlying shares and debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers in Appendix 10 of the Listing Rules are as follows:

Name of Director	Nature of interest	Number of ordinary Shares held (long position)	Approximate percentage of interest
Mr. Koon Wing Yee ( <i>Note</i> )	Interest of spouse	141,085,252	35.93%
Ms. Lui Yuk Chu ( <i>Note</i> )	Beneficiary of a trust	141,085,252	35.93%

*Note:* The 141,085,252 Shares relate to the same block of Shares in the Company. These Shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit International Holdings Limited (“Easyknit”). Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which 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 141,085,252 Shares by virtue of the SFO.

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 (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers.

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

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 March 2005 (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.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the persons (other than the Directors or the chief executive of the Company) 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 meeting of any other members of the Group, or had any options in respect of such capital are set out below:

Name of substantial Shareholder	Nature of interest	Number of ordinary Shares held (long position)	Approximate percentage of interest
Landmark Profits Limited (Notes 1 & 2)	Beneficial owner	141,085,252	35.93%
Easyknit (Notes 1 & 3)	Interest of controlled corporation	141,085,252	35.93%
Magical Profits Limited (Notes 1 & 4)	Interest of controlled corporation	141,085,252	35.93%
Accumulate More Profits Limited (Notes 1 & 5)	Interest of controlled corporation	141,085,252	35.93%
Trustcorp Limited (Note 1)	Trustee	141,085,252	35.93%
Au Yeung Man Yin	Beneficial owner	29,762,413	7.58%

*Notes:*

- The 141,085,252 Shares relate to the same block of Shares in the Company. These Shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, a Director, and her family members other than spouse).
- Mr. Koon Wing Yee and Ms. Lui Yuk Chu, being the Directors, are also directors of Landmark Profits Limited.
- Mr. Koon Wing Yee, Mr. Tse Wing Chiu Ricky and Ms. Lui Yuk Chu, being the Directors, are also directors of Easyknit.

4. Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits Limited.
5. Ms. Lui Yuk Chu, being a Director, is also a director of Accumulate More Profits Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company are not aware of any other persons who had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital.

#### 4. MATERIAL CONTRACTS

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

- (a) an underwriting agreement dated 2 January 2004 entered into among the Company, Get Nice Investment Limited, Kingston Securities Limited and Cheer Union Securities Limited in relation to the underwriting of a rights issue of not less than 297,505,700 rights shares at a price of HK\$0.25 per rights share;
- (b) a sale and purchase agreement dated 5 March 2004 between Best Ability Limited, a wholly owned subsidiary of the Company, as purchaser and Easyknit International Trading Company Limited, a wholly owned subsidiary of Easyknit, as vendor in relation to the acquisition of entire issued share capital of Po Cheong International Enterprises Limited at a consideration of HK\$65,000,000, which has been subsequently adjusted downwards to HK\$38,879,778 (for details, please refer to the announcements dated 5 March 2004, 26 March 2004, 2 April 2004, 8 April 2004, 21 April 2004, 10 May 2004 and 16 June 2005, and the circular dated 23 April 2004 of the Company);
- (c) a settlement agreement dated 25 June 2004 between Copplestone Limited (“Copplestone”), a wholly owned subsidiary of the Company and Arco Consulting Inc. (“Arco”) in relation to the full settlement of a loan of HK\$4,000,000 provided by Arco to Copplestone and the accrued interest of HK\$511,000 (up to the date of the agreement) by way of transferring all the issued shares of i100 Wireless Corporation, a then wholly owned subsidiary of Copplestone, to Arco (for details, please refer to the announcement dated 14 July 2004 and the circular dated 4 August 2004 of the Company);
- (d) an agreement dated 24 December 2004 and two supplemental agreements dated 28 December 2004 and 18 April 2005 between the Subsidiary and the Vendor in relation to the Project (for details, please refer to the Company’s announcements dated 3 January 2005, 24 January 2005, 8 February 2005 and 21 February 2005 and the Circular;
- (e) an underwriting agreement dated 18 July 2005 entered into between the Company and Get Nice Investment Limited in relation to the underwriting of a rights issue of not less than 357,006,840 rights Shares at a price of HK\$0.40 per rights Share; and

- (f) the Further Supplemental Agreement.

## 5. 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.

## 6. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

## 7. 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 is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

## 8. MISCELLANEOUS

- (a) The secretary of the Company is Chan Po Cheung, FCPA, FCCA, ACA.
- (b) The qualified accountant of the Company is Hsu Kei Leung, CPA, FCCA, ACMA, ASA.
- (c) 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 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong.
- (d) 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.
- (e) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong up to and including 9 January 2006:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (c) the annual reports of the Company for the fifteen months ended 31 March 2004 and for the year ended 31 March 2005; and
- (d) the interim report of the Company for the six months ended 30 September 2005.



**Asia Alliance Holdings Limited**

**亞洲聯盟集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 616)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of the shareholders of Asia Alliance Holdings Limited (the “Company”) will be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on 9 January 2006 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendment as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

**“THAT**

- (1) the supplemental agreement dated 25 November 2005 (the “Supplemental Agreement”), a copy of which has been produced to this meeting marked “A” and signed by the Chairman of this meeting for the purpose of identification, made between the People’s Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, the People’s Republic of China and Easyknit (Mauritius) Limited (the “Subsidiary”), a wholly owned subsidiary of the Company, and the transactions contemplated thereunder including the capital commitment of the Subsidiary of approximately RMB519 million in respect of the Project (as defined in the circular of the Company dated 22 December 2005), upon the terms and subject to the conditions therein contained, be and are hereby approved, confirmed and ratified; and
- (2) the directors of the Company be and are hereby authorised to do all acts or execute all documents which in their opinion are necessary, desirable or expedient to give effect to or in connection with the Supplemental Agreement or the Project.”

By order of the board of  
**Asia Alliance Holdings Limited**  
**Koon Wing Yee**  
*Chairman and Chief Executive Officer*

Hong Kong, 22 December 2005

\* for identification only

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## NOTICE OF THE SGM

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### Notes:

1. Any shareholder entitled to attend and vote at the meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
2. 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 that power or authority shall be delivered to the Company's principal place of business in Hong Kong at 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 or adjourned meeting (as the case may be) at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.
4. Completion and return of the instrument appointing a proxy will not preclude shareholders from attending and voting in person at the meeting convened by the above notice or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the instrument appointing the proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, then one of the said persons so present whose name stands first to the register of members in respect of such share shall alone be entitled to vote in respect thereof.

As of the date hereof, the executive directors of the Company are Mr. Koon Wing Yee, Mr. Tse Wing Chiu Ricky and Ms. Lui Yuk Chu and the independent non-executive directors are Mr. Kan Ka Hon, Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming.