1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

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

Particulars of the Company's principal subsidiaries at 31 March 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share capital/ registered capital/ stated capital	Proportion of nominal value of issued share capital/ registered capital/ stated capital held by the Company		Principal activities
			Directly	Indirectly	
Easyknit (Mauritius) Limited	Republic of Mauritius/ Hong Kong	Stated US$1	100%	—	Investment holding
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")*	People's Republic of China ("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
永義製衣(湖州)有限公司 ("Huzhou Garment")***	PRC	Registered US$3,916,202	—	100%	Garment manufacturing
永義紡織(湖州)有限公司 ("Huzhou Knitting")****	PRC	Registered US$2,711,921	—	100%	Knitting
永義漂染(湖州)有限公司 ("Huzhou Bleaching and Dyeing")*****	PRC	Registered US$3,009,110	—	100%	Bleaching and dyeing

1. GENERAL - *continued*

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.

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

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

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

The above table lists the 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 2006.

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

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (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.

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

Business combinations

In the current year, 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 years, 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 on 1 April 2005, the Group eliminated the carrying amount of the related accumulated amortisation of HK$1,920,000 with a corresponding decrease in the cost of goodwill (see note 17). The Group has discontinued amortising such goodwill from 1 April 2005 and goodwill will be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. This change in accounting policy has resulted in a decrease in loss for the current year of approximately HK$2,304,000. Comparative figures for 2005 have not been restated.

Share-based payments

In the current year, 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 share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. 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 year, 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. As a result of this change in accounting policy, prepaid lease payments of HK$8,814,000 and HK$183,000 have been recognised as non-current assets and current assets respectively on the consolidated balance sheet at 31 March 2006, there is no significant financial effect on the loss or profit for the current or prior accounting periods.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

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

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

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired.

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Goodwill - *continued*

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of returns and allowances.

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.

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

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

Property, plant and equipment

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

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

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

Owner-occupied leasehold interests in land

Leasehold interests in land are classified as prepaid lease payments under operating leases and amortised on a straight-line basis over the lease term.

Leasing

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefits costs

Payments to the state-sponsored pension scheme operated by the PRC government or the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Taxation

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

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

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

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 profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Taxation - *continued*

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

The cost of inventories comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Impairment losses of assets (other than goodwill)

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 March 2006, the carrying amount of goodwill is nil (net of accumulated impairment loss of HK$21,122,000). Details of the recoverable amount calculation are disclosed in note 17.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

It is the Group's policy for each operating entity to operate in local currency as far as possible to minimise currency risk. The Group's principal businesses are conducted and recorded in Renminbi. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short-term bank deposits. Since the bank deposits are all short-term in nature, any future variation in interest rates will not have a significant impact on the results of the Group.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In view of nature of business, the Group has targeted on a focused market. As at 31 March 2006, the Group has concentration of credit risk. Trade receivables amounting to approximately HK$15,799,000 was derived from a few major customers. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

6. 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. An analysis of the Group's turnover is as follows:

	2006 HK$'000	2005 HK$'000
Bleaching and dyeing		
- sales of goods	**47,727**	43,908
- service income	**10,209**	9,310
	57,936	53,218
Knitting services	**103**	444
	58,039	53,662

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group's primary format for reporting segment information is business segments. For management purposes, the Group is currently organised into three main operating divisions - bleaching and dyeing, knitting and garment manufacturing. These divisions are the bases on which the Group reports its primary segment information. During the year, the Group established a new business of garment manufacturing. However, there is no turnover contribution from this business as the production plants are yet to be constructed. 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 year. The discontinued operations during the year did not have any significant impact on the results of the Group for the current and prior accounting periods.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

Segment information about these businesses is presented below:

For the year ended 31 March 2006

(i) Income statement

	Bleaching and dyeing HK$'000	Knitting HK$'000	Garment manufacturing HK$'000	Eliminations HK$'000	Consolidated HK$'000
Turnover					
External	57,936	103	—	—	58,039
Inter-segment *(note)*	4	5,465	—	(5,469)	—
Total	57,940	5,568	—	(5,469)	58,039
Segment result	(25,366)	(1,434)	(1,119)	—	(27,919)
Interest income					1,291
Unallocated corporate expenses					(4,954)
Finance costs					(1,275)
Loss for the year					(32,857)

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

(ii) Balance sheet

	Bleaching and dyeing HK$'000	Knitting HK$'000	Garment manufacturing HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	53,728	13,034	7,446	74,208
Unallocated corporate assets				111,333
Consolidated total assets				185,541
LIABILITIES				
Segment liabilities	7,535	1,140	36	8,711
Unallocated corporate liabilities				1,802
Consolidated total liabilities				10,513

7. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

(iii) Other information

	Bleaching and dyeing HK$'000	Knitting HK$'000	Garment manufacturing HK$'000	Consolidated HK$'000
Capital additions	430	410	3,254	4,094
Depreciation	2,004	1,315	53	3,372
Allowance for inventories	214	—	—	214
Amortisation of prepaid lease payments	62	32	74	168
Loss on disposal of property, plant and equipment	96	—	—	96
Allowance for doubtful debts	3,882	—	—	3,882

For the year ended 31 March 2005

(i) Income statement

	Continuing operations		Discontinued operations			
	Bleaching and dyeing HK$'000	Knitting HK$'000	Wireless communication business HK$'000	Communication solutions consultancy services HK$'000	Eliminations HK$'000	Consolidated HK$'000
Turnover						
External	53,218	444	—	—	—	53,662
Inter-segment *(note)*	—	2,945	—	—	(2,945)	—
Total	53,218	3,389	—	—	(2,945)	53,662
Segment result	4,095	(2,370)	56	(11)	—	1,770
Interest income						45
Unallocated corporate expenses						(4,329)
Gain on disposal of subsidiaries						9,042
Finance costs						(424)
Profit for the year						6,104

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

(ii) Balance sheet

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

(iii) Other information

	Continuing operations		Discontinued operations		
	Bleaching and dyeing HK$'000	Knitting HK$'000	Wireless communication business HK$'000	Communication solutions consultancy services HK$'000	Consolidated HK$'000
Addition of goodwill	23,042	—	—	—	23,042
Amortisation of goodwill	1,920	—	—	—	1,920
Capital additions	14,613	11,695	—	—	26,308
Depreciation	1,717	1,011	6	10	2,744
Allowance for inventories	94	—	—	—	94
Write back of allowance for doubtful debts	—	—	(17)	—	(17)

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.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Geographical segments

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

	2006 **HK$'000**	2005 HK$'000
United States of America	**366**	—
The PRC	**57,673**	53,662
	58,039	53,662

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:

	Carrying amount of segment assets		**Additions to property, plant and equipment and goodwill**	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Hong Kong	**63,035**	11,718	**—**	—
The PRC	**122,506**	107,949	**4,094**	34,821
	185,541	119,667	**4,094**	34,821

8. OTHER INCOME

	2006 **HK$'000**	2005 HK$'000
An analysis of the Group's other income is as follows:		
Interest income	**1,291**	45
Others	**150**	220
	1,441	265

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on borrowings wholly repayable within five years:		
- bank borrowings	1,275	339
- other borrowings	—	85
	1,275	424

10. (LOSS) PROFIT FOR THE YEAR

	2006 HK$'000	2005 HK$'000
(Loss) profit for the year has been arrived at after charging:		
Directors' remuneration *(note 11(a))*	700	253
Other staff costs, including retirement benefits costs	6,486	4,868
Total staff costs	7,186	5,121
Allowance for inventories	214	94
Amortisation of goodwill *(note)*	—	1,920
Amortisation of prepaid lease payments	168	—
Auditors' remuneration	538	545
Cost of inventories recognised as an expense	36,648	29,470
Depreciation	3,372	2,744
Net foreign exchange loss	552	48
Loss on disposal of property, plant and equipment	96	—

Note: The amount is included in other expenses.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

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

	Executive director				Independent non-executive director			
	Tse Wing Chiu, Ricky	**Lui Yuk Chu**	**Koon Wing Yee**	**Tsang Yiu Kai**	**Kan Ka Hon**	**Kwong Jimmy Cheung Tim**	**Lau Sin Ming**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fees	—	—	—	—	100	100	100	300
Other emoluments								
- Salaries and other benefits	200	200	—	—	—	—	—	400
Total directors' emoluments	200	200	—	—	100	100	100	700

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

	Executive director			Independent non-executive director			
	Lui Yuk Chu	**Koon Wing Yee**	**Tsang Yiu Kai**	**Kan Ka Hon**	**Kwong Jimmy Cheung Tim**	**Lau Sin Ming**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fees	—	—	—	100	100	53	253
Other emoluments	—	—	—	—	—	—	—
Total directors' emoluments	—	—	—	100	100	53	253

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

(b) Information regarding employees' emoluments

The five highest paid individuals of the Group included two (2005: nil) directors whose emoluments were included above. The emoluments of the remaining three (2005: five) highest paid individuals, not being directors, are as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**943**	1,175
Retirement benefits costs	**30**	47
Total employees' emoluments	**973**	1,222

The emoluments of each of the five highest paid individuals were less than HK$1,000,000 during both years.

During the year, 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 of office. In addition, during both periods, no director waived any emoluments.

12. 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 2006 and 2005.

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. The Company's subsidiaries have not yet started their first profitable year of operations.

12. TAXATION - *continued*

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

	2006	2005
	HK$'000	HK$'000
(Loss) profit for the year	**(32,857)**	6,104
Tax (credit) charge of Hong Kong Profits Tax at 17.5% (2005: 17.5%)	**(5,750)**	1,068
Tax effect of income not taxable for tax purposes	**(163)**	(2,871)
Tax effect of expenses not deductible for tax purposes	**5,307**	699
Tax effect of utilisation of tax losses not previously recognised	**(116)**	(60)
Tax effect of tax losses not recognised	**646**	1,005
Others	**76**	159
Taxation for the year	**—**	—

13. BASIC (LOSS) EARNINGS PER SHARE

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

	2006	2005
	HK$'000	HK$'000
(Loss) profit for the purposes of basic (loss) earnings per share	**(32,857)**	6,104

	2006	2005
Number of shares		
Weighted average number of shares for the purposes of basic (loss) earnings per share	**221,149,599**	34,886,708

The number of shares for the purposes of calculating basic earnings per share for the year ended 31 March 2005 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 year ended 31 March 2006 as the exercise of the Company's outstanding share options would reduce the loss per share for the year.

No diluted earnings per share was 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 that period.

13. BASIC (LOSS) EARNINGS PER SHARE - *continued*

The following table summarises the impact on basic (loss) earnings per share as a result of:

	Impact on basic (loss) earnings per share	
	2006	2005
	HK$	HK$
Reported figures before adjustment	**(0.16)**	0.17
Adjustment arising from changes in accounting policies *(see note 2)*	**0.01**	—
Restated	**(0.15)**	0.17

14. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

(a) During the year, the Group had the following transactions carried out with related parties/persons deemed to be "connected persons" by the Stock Exchange, being entities controlled by certain relatives of Mr. Koon Wing Yee, a former director of the Company, and his spouse, Ms. Lui Yuk Chu, a director of the Company:

	2006	2005
	HK$'000	HK$'000
Sales of bleached and dyed fabrics	**2,983**	23,647
Bleaching and dyeing charges received	**1,270**	167

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

	2006	2005
	HK$'000	HK$'000
Trade receivables	**1**	5,809

(b) During the year, the Group received administrative services from Easyknit International Trading Company Limited, a company in which Mr. Koon Wing Yee and Mr. Tsang Yiu Kai, former directors of the Company, and Ms. Lui Yuk Chu, a director of the Company, have beneficial interests and paid services fee of approximately HK$240,000 (2005: HK$241,000).

(c) During the year, a former 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.

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

Compensation of key management personnel

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

	2006	2005
	HK$'000	HK$'000
Short-term employee benefits	**932**	452

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

15. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
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)
At 31 March 2005	22,708	2,467	1,134	—	26,309
Exchange adjustments	380	82	18	—	480
Additions	107	83	271	3,633	4,094
Disposals	—	(265)	—	—	(265)
At 31 March 2006	23,195	2,367	1,423	3,633	30,618
DEPRECIATION					
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)
At 31 March 2005	1,945	537	166	—	2,648
Exchange adjustments	78	35	3	—	116
Provided for the year	2,421	699	252	—	3,372
Eliminated on disposals	—	(114)	—	—	(114)
At 31 March 2006	4,444	1,157	421	—	6,022
CARRYING VALUES					
At 31 March 2006	18,751	1,210	1,002	3,633	24,596
At 31 March 2005	20,763	1,930	968	—	23,661

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

Plant and machinery	9% to 18%
Furniture, fixtures and equipment	9% to 30%
Motor vehicles	9% to 20%

16. PREPAID LEASE PAYMENTS

	HK$'000
COST	
Additions and at 31 March 2006	9,165
AMORTISATION	
Provided for the year and balance at 31 March 2006	168
CARRYING VALUE	
At 31 March 2006	8,997
Analysed for reporting purposes as:	
Non-current assets	8,814
Current assets	183
	8,997

The Group's prepaid lease payments comprise medium-term land use rights situated in the PRC. At 31 March 2006, the Group was in the process of obtaining the land use rights certificate for land use rights with carrying value amounting to approximately HK$6,379,000.

17. GOODWILL

	HK$'000
COST	
At 1 April 2004	589
On acquisition of subsidiaries	23,042
On disposal of subsidiaries	(589)
At 31 March 2005	23,042
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see note 2)*	(1,920)
At 31 March 2006	21,122
AMORTISATION	
At 1 April 2004	589
Provided for the year	1,920
On disposal of subsidiaries	(589)
At 31 March 2005	1,920
Elimination of accumulated amortisation upon the application of HKFRS 3	(1,920)
At 31 March 2006	—
IMPAIRMENT	
At 1 April 2005	—
Impairment loss recognised for the year	21,122
At 31 March 2006	21,122
CARRYING VALUES	
At 31 March 2006	—
At 31 March 2005	21,122

Until 31 March 2005, goodwill had been amortised on a straight-line basis over its estimated useful life of ten years.

17. GOODWILL - *continued*

Impairment testing on goodwill

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the carrying amount of goodwill (net of accumulated amortisation) has been allocated to the cash-generating unit (the "CGU") - bleaching and dyeing segment.

During the year ended 31 March 2006, the Group recognised an impairment loss of HK$21,122,000 in relation to goodwill arising on acquisition of Po Cheong International Enterprises Limited ("Po Cheong"). Po Cheong is an investment holding company and Wing Yiu is the only subsidiary of Po Cheong which is engaged in the business of bleaching and dyeing. As the management of the Group is considering not to renew the operating license of Wing Yiu after 20 August 2011, full impairment on the carrying amount of goodwill (net of accumulated amortisation) was made after considering the value in use of the CGU.

The basis of the recoverable amount of the above CGU and its major underlying assumptions are summarised below:

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period from April 2006 to August 2011, the time when the operating license of Wing Yiu expires, and discount rate of 5%. Another key assumption for the value in use calculations is the budgeted turnover and various operating costs, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

18. LOAN TO ACME LANDIS OPERATIONS HOLDINGS LIMITED ("ALOH")

	2006 **HK$'000**	2005 HK$'000
Loan to ALOH	—	45,815
Less: Impairment	—	(45,815)
	—	—

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

19. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	**4,531**	4,097
Work-in-progress	**21**	391
Finished goods	**77**	158
	4,629	4,646

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:

	2006 HK$'000	2005 HK$'000
0 - 60 days	**7,504**	7,150
61 - 90 days	**2,340**	3,398
Over 90 days	**9,934**	13,883
Trade receivables	**19,778**	24,431
Other receivables	**1,895**	1,335
	21,673	25,766

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

21. OTHER FINANCIAL ASSETS

Bank balances and cash

The amounts comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, at prevailing market interest rates ranging from 0.72% to 4.19% (2005: 0.72%) per annum. The fair values of these assets approximate their corresponding carrying amounts.

22. TRADE AND OTHER PAYABLES

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

	2006	2005
	HK$'000	HK$'000
0 - 60 days	**4,963**	4,615
61 - 90 days	**1,286**	961
Over 90 days	**233**	277
Trade payables	**6,482**	5,853
Other payables	**2,365**	2,187
	8,847	8,040

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

23. BILLS PAYABLE

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

24. BANK LOANS

	2006 HK$'000	2005 HK$'000
The bank loans are unsecured, bear interest at prevailing market rates and are repayable as follows:		
Within one year	**984**	30,985
Between one to two years	**—**	5,985
Between two to five years	**—**	9,436
	984	46,406
Less: Amount due within one year shown under current liabilities	**(984)**	(30,985)
Amount due after one year	**—**	15,421

All of the Group's borrowings were at variable-rate. The range of effective interest rates on the Group's borrowings are as follows:

	2006	2005
Effective interest rate:		
Variable-rate borrowings	1% per annum over the bank's HK$ best lending rate	1% per annum over 3-month HIBOR to 1% per annum over the bank's HK$ best lending rate

As at the balance sheet date, the Group's borrowings that are denominated in US dollars is HK$984,000 (2005: nil).

As at the balance sheet date, the Group has undrawn borrowing facilities amounting to HK$8,334,000 (2005: HK$23,800,000).

The fair value of the Group's bank loans approximates the corresponding carrying amount.

25. SHARE CAPITAL

	Notes	Nominal value per share HK$	Number of shares	Amount HK$'000
Authorised:				
At 1 April 2004 and 31 March 2005		0.10	6,500,000,000	650,000
Effect of the Capital Reduction referred to below	(a)(i)		—	(643,500)
		0.001	6,500,000,000	6,500
Effect of the share consolidation referred to below	(a)(iii)		(5,850,000,000)	—
At 31 March 2006		0.01	650,000,000	6,500
Issued and fully paid:				
At 1 April 2004 and 31 March 2005		0.10	357,006,840	35,701
Effect of the Capital Reduction referred to below	(a)(i)		—	(35,344)
		0.001	357,006,840	357
Effect of the share consolidation referred to below	(a)(iii)		(321,306,156)	—
		0.01	35,700,684	357
Rights issue of shares at a price of HK$0.40 per rights share	(b)	0.01	357,006,840	3,570
At 31 March 2006		0.01	392,707,524	3,927

25. SHARE CAPITAL *- continued*

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$142,000,000 of which approximately HK$69,000,000 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.

26. SHARE OPTION SCHEMES

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.

26. SHARE OPTION SCHEMES - *continued*

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.

26. SHARE OPTION SCHEMES - *continued*

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

Grantee	Share option scheme	Date of grant	Exercise period	Exercise price HK$ *(note iv)*	Number of share options *(note iv)* At 1 April 2005	Lapsed during the year	At 31 March 2006
Former employee	2001	31 August 2001	31 August 2001 to 30 August 2011 *(note ii)*	1.792	5,625,000	(5,625,000)	—

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 2004	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
					5,964,300	(339,300)	5,625,000

Notes:

(i) The vesting period was the period of three years after the date of grant. One-third of the share options became 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 became exercisable.

(ii) Half of the share options were exercisable from the date of grant and the remaining half became exercisable after 6 months from the date of grant and the vesting period thereof was the period from the date of grant to six months after the date of grant.

(iii) The exercise price of the share options was subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

(iv) The number and exercise price of the share options had not been adjusted to reflect the share consolidation in September 2005.

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

27. ACQUISITION OF SUBSIDIARIES

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. 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 year ended 31 March 2005.

	2006	2005
	HK$'000	HK$'000
Net assets acquired:		
Property, plant and equipment	—	14,529
Inventories	—	3,010
Amounts due from shareholders	—	—
Trade and other receivables	—	19,973
Bank balances and cash	—	423
Trade and other payables	—	(10,751)
Bills payable	—	(1,837)
Bank loans	—	(8,775)
Minority interests	—	—
	—	16,572
Goodwill on acquisition	—	23,042
Total consideration	—	39,614
Satisfied by:		
Cash paid	—	38,880
Expenses incurred in connection with acquisition	—	734
	—	39,614
Net cash outflow arising on acquisition:		
Cash consideration paid	—	(38,880)
Expenses incurred in connection with acquisition	—	(734)
Bank balances and cash acquired	—	423
Net cash outflow of cash and cash equivalents in respect of the purchase of subsidiaries	—	(39,191)

The subsidiaries acquired during the year ended 31 March 2005 contributed HK$53,218,000 to the Group's turnover and HK$6,018,000 to the Group's profit for the year ended 31 March 2005.

28. 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, the Group disposed of i100 Wireless Corporation to the lender of the other loan on 25 June 2004.

The effect of the disposal is summarised as follows:

	2006 **HK$'000**	2005 HK$'000
Net liabilities released:		
Property, plant and equipment	—	568
Trade and other receivables	—	286
Bank balances and cash	—	15
Trade and other payables	—	(5,207)
Minority interests	—	(209)
	—	(4,547)
Exchange reserve realised on disposal of subsidiaries	—	16
Gain on disposal of subsidiaries	—	9,042
Total consideration	—	4,511
Satisfied by:		
Loan principal waived	—	4,000
Accrued interest thereof waived	—	511
	—	4,511
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	—	(15)

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

29. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 April 2004	4	(4)	—
(Credit) charge to income statement for the year on disposal of subsidiaries	(4)	4	—
At 31 March 2005 and 2006	—	—	—

At 31 March 2006 and 2005, deductible temporary difference in respect of tax losses not recognised in the financial statements were approximately HK$17,888,000 and HK$14,857,000 respectively. No deferred tax asset has been recognised in respect of such deductible temporary difference due to the unpredictability of future profit streams. The tax losses at 31 March 2006 and 2005, which amounted to approximately HK$3,483,000 and HK$4,104,000 respectively, can only be carried forward for a maximum period of five years, other losses may be carried forward indefinitely.

30. CAPITAL COMMITMENTS

	2006 HK$'000	2005 HK$'000
Capital expenditure contracted but not provided for in the financial statements in respect of:		
- construction of plants	**5,903**	19,080
- acquisition of land use rights	**—**	9,538
- capital injection for interests in a jointly controlled entity and a non wholly-owned subsidiary	**20,904**	20,904
	26,807	49,522
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment *(note)*	**466,733**	171,382

30. CAPITAL COMMITMENTS - *continued*

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 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.

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), as agreed by the parties in the Supplemental Agreement is estimated to be approximately HK$499,000,000 (equivalent to RMB519,000,000). Details of the above are set out in the circular issued by the Company dated 22 December 2005.

31. OPERATING LEASE ARRANGEMENTS

	2006 **HK$'000**	2005 HK$'000
Minimum lease payments recognised in the consolidated income statement during the year	**1,596**	1,329

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

	2006 **HK$'000**	2005 HK$'000
Within one year	**1,301**	1,376
In the second to fifth year inclusive	**5,648**	5,470
Over five years	**1,871**	3,246
	8,820	10,092

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 eleven 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.

32. 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 year. The employers' contributions which have been dealt with in the consolidated income statement of the Group were as follows:

	2006	2005
	HK$'000	HK$'000
Employers' contributions charged to the consolidated income statement	**90**	87

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

33. POST BALANCE SHEET EVENTS

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

As announced by the Company on 2 May 2006, the Company proposed the followings:

(i) to increase the authorised share capital of the Company from HK$6,500,000 to HK$200,000,000 by the creation of an additional 19,350,000,000 shares of HK$0.01 each (the "Increase in Authorised Share Capital");

(ii) upon the Increase in Authorised Share Capital becoming effective, to issue 3,534,367,716 bonus shares of HK$0.01 each by way of capitalisation of an amount of approximately HK$35,344,000 from the Company's share premium account on the basis of nine bonus shares for every share held (the "Bonus Issue"); and

(iii) to change the English name of the Company from "Asia Alliance Holdings Limited" to "Easyknit Enterprises Holdings Limited" and to adopt the Chinese name "永義實業集團有限公司" in lieu of "亞洲聯盟集團有限公司" for identification purpose.

At the special general meeting of the Company held on 19 June 2006, resolutions approving the Increase in Authorised Share Capital, the Bonus Issue and the change of name of the Company were passed. The Bonus Issue is subject to the Stock Exchange's approval.

Details of the above are set out, inter alia, in the circular of the Company dated 19 May 2006.