

The board of directors (the “Board”) of Tristate Holdings Limited (the “Company”) presents its report together with the audited financial statements of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2005.

### PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are garment manufacturing, garment trading and branded product distribution.

An analysis of the Group’s sales turnover and contribution to operating profit for the year by business and geographical segment is set out in note 4 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 34.

An interim dividend of HK\$0.09 per share amounting to HK\$24,186,000 was paid on 26 October 2005 (2004: Nil).

The Board recommends the payment of a final dividend of HK\$0.15 per share, totalling HK\$40,310,000 for the year ended 31 December 2005 (2004: HK\$0.10 per share, totalling HK\$26,874,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on 6 June 2006, is expected to be paid on 9 June 2006 to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2006, and for the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from 31 May 2006 to 6 June 2006, both days inclusive.

### FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2005 is set out on page 2.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the financial statements.

### SUBSIDIARIES

Particulars of the Company’s principal subsidiaries as at 31 December 2005 are set out in note 18 to the financial statements.

### SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the financial statements.

### RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 31 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2005, the reserves of the Company amounted to approximately HK\$431,020,000 (2004: HK\$431,020,000) and retained earnings amounted to approximately HK\$71,377,000 (2004: HK\$71,824,000), both of which were available for distribution to equity holders of the Company as calculated in accordance with the Companies Act 1981 of Bermuda.

## SHARE OPTIONS

The Company's current share option scheme was adopted by the shareholders of the Company at the special general meeting held on 28 November 1997, and pursuant to which options may be granted to full-time employees (including executive directors) of the Company and/or its subsidiaries to subscribe for shares in the Company (the "Share Option Scheme"). The purposes of the Share Option Scheme are to provide employees with the opportunity of participating in the growth of the Group by acquiring shares in the Company and to assist in the attraction and retention of high quality employees. A summary of certain details of the Share Option Scheme (as restricted by the operation of certain provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") which came into effect after the adoption of the Share Option Scheme) is set out as follows: —

Participants	:	Full-time employees (including executive directors) of the Company and/or any of its subsidiaries
Total number of shares available for issue and the percentage of the issued share capital that it represents as at the date of this report	:	20,994,025 shares representing 7.81% of the issued share capital of the Company
Maximum entitlement of each participant	:	Not exceeding 25% of the aggregate number of shares issued and issuable under the Share Option Scheme (Note a)
Period within which the securities must be taken up under an option	:	Not exceeding three years from the earlier of (i) the last day of the three years period commencing on the date on which the relevant option is accepted and (ii) the date falling on the expiry of ten years from 28 November 1997
Minimum period for which an option must be held before it can be exercised	:	An option may be exercised at any time during a period to be notified by the Board to each grantee. The Board may also provide restrictions on the exercise of an option during such period.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	:	HK\$1 within 28 days of offer

- Basis of determining the exercise price : The subscription price shall be determined by the Board and not less than the higher of (i) the nominal value of a share of the Company and (ii) 80% of the average of the closing price of the Company's shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant of the options on which there were dealings in the shares on the Hong Kong Stock Exchange (Note b).
- Remaining life of the Share Option Scheme : The Share Option Scheme remains in force for a period of ten years from 28 November 1997.

Notes:

- a. Under the requirements of the Listing Rules in force as from 1 September 2001, the maximum entitlement (being securities issued and issuable under option) of each participant under the Share Option Scheme in any 12-month period shall not exceed 1% of the issued capital of the relevant class.
- b. With effect from 1 September 2001, the Hong Kong Stock Exchange requires that the exercise price of options should be at least the higher of: (i) the closing price of the shares of the Company on the Hong Kong Stock Exchange on the date of grant; and (ii) the average closing prices of the shares of the Company on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of grant. Up to the date of this report, the Company has not granted any options on or after 1 September 2001.

No share options under the Share Option Scheme were outstanding at the beginning and at the end of the year. No share options were granted, exercised, cancelled or lapsed during the year.

No share options were granted during the year and, accordingly, no valuation of share options granted was necessary.

Details of the share options of the Company are also set out in note 32 to the financial statements.

## RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in note 27 to the financial statements.

## BANK BORROWINGS

Details of the bank borrowings of the Group are set out in note 26 to the financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$124,000.

## DIRECTORS

The directors of the Company (the “Directors”) who held office during the year and up to the date of this report were: —

### Executive Directors:

Mr. WANG Kin Chung, Peter (*Chairman and Chief Executive Officer*)

Mr. WU Ching Her (resigned on 26 January 2005)

### Non-Executive Directors:

Ms. WANG KOO Yik Chun (*Honorary Chairlady*)

Ms. Leslie TANG SCHILLING

Ms. MAK WANG Wing Yee, Winnie

Dr. WANG Shui Chung, Patrick

### Independent Non-Executive Directors:

Mr. YUAN Ching Man, James

Mr. LO Kai Yiu, Anthony

Mr. James Christopher KRALIK

In accordance with Bye-Laws 85 and 86 of the Company’s Bye-Laws and Code Provision A.4.2 set out in Appendix 14 of the Listing Rules (which became effective as from 1 January 2005), Mr. WANG Kin Chung, Peter will voluntarily retire and Ms. WANG KOO Yik Chun, Ms. Leslie TANG SCHILLING, Dr. WANG Shui Chung, Patrick and Mr. LO Kai Yiu, Anthony will retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considers that such independent non-executive Directors are still independent.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and the senior management of the Company as at the date of this report are set out on pages 18 to 20.

## DIRECTORS’ SERVICE CONTRACTS

None of the Directors offering themselves for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries, which is not determinable within one year without payment of compensation (other than statutory compensation).

## DIRECTORS’ EMOLUMENTS

The emoluments payable to the Directors are determined at arm’s length on the basis of the responsibilities involved, time devoted, financial position of the Company and prevailing market conditions.

Details of the emoluments of the Directors for the year ended 31 December 2005 are set out in note 13 to the financial statements.

## ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the “Share options” section in this report and in note 32 to the financial statements, at no time during the year was the Company, its subsidiaries, its holding company or the subsidiaries of its holding company, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

- (i) On 1 April 2003, Hwa Fuh Manufacturing Company (Hong Kong) Limited (“Hwa Fuh”), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with TDB Company Limited (“TDB”) relating to the premises at Ground and 2nd to 11th Floors, Tak Dah Industrial Building, 66-72 Lei Muk Road, Kwai Chung, New Territories for a term of two years from 1 April 2003 to 31 March 2005 (the “Previous Tenancy Agreement”). As at the date of the Previous Tenancy Agreement, TDB was a company with a majority of its shares being indirectly held by a discretionary trust of which Mr. WANG Kin Chung, Peter (“Mr. Peter WANG”) and Ms. WANG KOO Yik Chun (“Madam Koo”), being Directors, were eligible beneficiaries. The said tenancy expired on 31 March 2005.
- (ii) On 26 January 2005, Hwa Fuh, a wholly-owned subsidiary of the Company, entered into a new tenancy agreement with TDB, relating to the premises at Ground and 2nd to 11th Floors, Tak Dah Industrial Building, 66-72 Lei Muk Road, Kwai Chung, New Territories for a term of two years from 1 April 2005 to 31 March 2007 (the “New Tenancy Agreement”). As at the date of the New Tenancy Agreement, the entire issued share capital of TDB was held by a discretionary trust of which Mr. Peter WANG and Madam Koo, being Directors, were eligible beneficiaries.
- (iii) On 17 August 2005, Prime-Time Company Limited (“Prime-Time”), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Ms. Daisy TING and pursuant to which Prime-Time agreed to acquire 1,085,800 ordinary shares of Hua Thai Manufacturing Public Company Limited (“Hua Thai”), representing approximately 10.86% of the entire issued share capital of Hua Thai, from Ms. Daisy TING (the “Sale and Purchase Agreement”). The ordinary shares of Hua Thai are listed on The Stock Exchange of Thailand (“Thailand Stock Exchange”). As at the date of the Sale and Purchase Agreement, Hua Thai was held as to approximately 36.43% of its entire issued share capital by Prime-Time. Ms. Daisy TING is the spouse of Mr. Peter WANG, a Director. The said acquisition was completed on 28 October 2005.
- (iv) On 25 August 2005, Prime-Time, a wholly-owned subsidiary of the Company, entered into an option agreement with Madam Koo and pursuant to which Prime-Time was granted an option (the “Option”), exercisable by Prime-Time at any time and at its sole discretion, to acquire 362,020 ordinary shares of Hua Thai (“Hua Thai Shares”) and 451,880 non-voting depository receipts of Hua Thai (“NVDRs”), representing approximately 3.62% and 4.52% of the entire issued share capital of Hua Thai, respectively from Madam Koo (the “Option Agreement”). The Option was exercised on 28 October 2005 and Prime-Time acquired 813,900 Hua Thai Shares (of which 451,880 Hua Thai Shares were converted from NVDRs) on the same day.

The Previous Tenancy Agreement, the New Tenancy Agreement, the Sale and Purchase Agreement and the Option Agreement were contracts of significance which subsisted during the year and/or at the end of the year pursuant to paragraphs 15 and 16 in Appendix 16 of the Listing Rules. Further particulars of the said agreements are set out in the “Connected transactions” section of this report.

Save for the above, no contract of significance in relation to the Company’s business subsisted during or at the end of the year in which a Director was materially interested either directly or indirectly; nor was there any contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries during or at the end of the year.

During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries has been made.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Madam Koo and Mr. Peter WANG, both being Directors, are directors of Hua Thai and certain of its subsidiaries. Hua Thai was a 36.43% held associated company of the Company prior to 28 October 2005 and, together with its subsidiaries, were engaged in the garment manufacturing and trading businesses. The ordinary shares of Hua Thai are listed on Thailand Stock Exchange. Hua Thai has become a subsidiary of the Company since 28 October 2005 and therefore Madam Koo's and Mr. Peter WANG's directorships in Hua Thai and certain of its subsidiaries are no longer considered to be interests in businesses, which compete or are likely to compete, directly or indirectly, with the Group's business under rule 8.10 of the Listing Rules.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2005, the interests and short positions of the Directors and the chief executive of the Company in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") under Appendix 10 of the Listing Rules, were as follows: —

### Interests in shares of the Company

Name of Director	Long/short position	Number of shares held				Total	Approximate percentage of issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation(s)	Through discretionary trust(s)/as beneficiary or trustee of trust(s)		
Mr. Peter WANG	Long position	—	—	188,260,000 (Note a)	—	188,260,000	70.05%
Madam Koo	Long position	—	—	—	1,537,000 (Note b)	1,537,000	0.57%

### Interests in shares of Hua Thai

Name of Director	Long/short position	Class	Number of shares held		Total	Approximate percentage of issued share capital
			Directly beneficially owned	Through spouse or minor children		
Madam Koo	Long position	Ordinary share	—	2,500 (Note c)	2,500	0.03%

Save as disclosed above, as at 31 December 2005, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 336 of the SFO shows that, as at 31 December 2005, the Company had been notified that the following persons (not being Directors or the chief executive of the Company) were interested in the following interests and/or short positions in the shares or underlying shares of the Company: —

Name of shareholder	Long/short position	Number of shares held				Through discretionary trust(s)/as trustee of trust(s)	Total	Approximate percentage of issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation(s)	Through			
Silver Tree Holdings Inc.	Long position	188,260,000 (Note a)	—	—	—	188,260,000	70.05%	
Ms. Daisy TING	Long position	—	188,260,000 (Note d)	—	—	188,260,000	70.05%	
Mr. TANG Yue Nien, Martin	Long position	—	—	—	23,860,000 (Note e)	23,860,000	8.88%	
HSBC International Trustee (New Zealand) Limited	Long position	—	—	—	29,206,000 (Notes e and f)	29,206,000	10.87%	
HSBC International Trustee Limited	Long position	—	—	29,206,000 (Note g)	10,000 (Note g)	29,216,000	10.87%	

Save as disclosed above, as at 31 December 2005, no other person (other than a Director or the chief executive of the Company) known to any Director or the chief executive of the Company had an interest or short position in the shares or underlying shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Notes to "Directors' interests in securities" and "Substantial shareholders" sections above (per information as at 31 December 2005):

- 188,260,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly-owned by Mr. Peter WANG.
- 1,379,000 shares were held by Euroworld Investment Holding Corporation (under the registered name of HKSCC Nominees Limited) as trustee of a unit trust, units of which were held by a trust, the discretionary objects of which included Madam Koo. Another 158,000 shares were held by Main World Investment Limited, the entire issued share capital of which was beneficially owned by the same unit trust.
- 2,500 shares in Hua Thai were held by the late Mr. WANG Seng Liang, the spouse of Madam Koo.
- 188,260,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly-owned by Mr. Peter WANG (see Note a), the spouse of Ms. Daisy TING.
- HSBC International Trustee (New Zealand) Limited held 23,860,000 shares as trustee of a trust of which Mr. TANG Yue Nien, Martin was a discretionary beneficiary.

- f. HSBC International Trustee (New Zealand) Limited held 29,206,000 shares as trustee for various trusts and all the shares were registered in the name of HSBC International Trustee Limited.
- g. 29,206,000 shares were held by HSBC International Trustee (New Zealand) Limited (see Notes e and f), a company accustomed/ obliged to act in accordance with the directions or instructions of HSBC International Trustee Limited. Another 10,000 shares were held by HSBC International Trustee Limited as trustee (other than a bare trustee).

## **PUBLIC FLOAT**

On the basis of information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the issue of this report.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company did not redeem any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-Laws and there are no restrictions against such rights under the laws of Bermuda (being the jurisdiction in which the Company was incorporated).

## **MANAGEMENT CONTRACTS**

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The percentage of sales attributable to the Group's largest customer and the five largest customers combined were 18% and 46%, respectively.

The percentage of purchases attributable to the Group's largest supplier and the five largest suppliers combined were 25% and 36%, respectively.

Hua Thai, an associated company of the Company prior to 28 October 2005, became a subsidiary of the Company on that date. Hua Thai together with its subsidiaries (collectively known as the "Hua Thai Group") was one of the five largest suppliers of the Group prior to Hua Thai becoming a subsidiary of the Company. Details of transactions between the Group and Hua Thai Group up to 27 October 2005 when Hua Thai was an associated company of the Company are set out in note 34 to the financial statements. A number of family members and relatives of Mr. Peter WANG, a Director, had interests in Hua Thai when it was an associated company of the Company. In the opinion of the Board, the Group's transactions with the Hua Thai Group were carried out on terms no more favourable than terms available to/from independent third parties.

Save as aforementioned, none of the Directors, their associates, or any shareholder (which to the knowledge of the Board owned more than 5% of the Company's share capital) had, at any time during the year, a beneficial interest in any of the Group's five largest customers and/or suppliers.

## **CONNECTED TRANSACTIONS**

- (i) On 1 April 2003, Hwa Fuh, a wholly-owned subsidiary of the Company, entered into the Previous Tenancy Agreement with TDB, relating to the premises at Ground and 2nd to 11th Floors, Tak Dah Industrial Building, 66-72 Lei Muk Road, Kwai Chung, New Territories (the "Premises"). As at the date of the Previous Tenancy Agreement, TDB was a company with a majority of its shares being indirectly held by a discretionary trust of which Mr. Peter WANG and Madam Koo, being Directors, were eligible beneficiaries. TDB was therefore a connected person of the Company and the Previous Tenancy Agreement constituted a connected transaction for the Company under Chapter 14 of the Listing Rules (in force prior to 31 March 2004). The said tenancy expired on 31 March 2005.



Details of the Previous Tenancy Agreement were as follows:

Term	:	Two years from 1 April 2003 to 31 March 2005 with an option to renew for two further years at a rent to be agreed between TDB and Hwa Fuh
Monthly rental	:	HK\$371,435 (excluding management fee, government rates and government rent)
Use of the Premises	:	Occupied by the Group as factory, office and warehouse premises

The terms of the Previous Tenancy Agreement were arrived at after arm's length negotiations between Hwa Fuh and TDB and were based on the confirmation from DTZ Debenham Tie Leung Limited, a firm of professional property valuer, on 24 March 2003 of the then current market rental of the Premises. The Board (including the independent non-executive Directors) considered that the terms of the Previous Tenancy Agreement were normal commercial terms and were fair and reasonable and in the interests of the Company and its shareholders as a whole.

As the aggregate rental payable by the Group pursuant to the Previous Tenancy Agreement for the two-year term (in the amount of HK\$8,914,440) represented less than 3% of the book value of the net tangible assets of the Group of HK\$691,424,000 as at 31 December 2002, the Previous Tenancy Agreement was not subject to the approval by the Company's independent shareholders pursuant to Chapter 14 of the Listing Rules then prevailing.

Further details of the Previous Tenancy Agreement were set out in the announcement of the Company dated 1 April 2003.

- (ii) On 26 January 2005, Hwa Fuh, a wholly-owned subsidiary of the Company, entered into the New Tenancy Agreement with TDB, in relation to the premises at Ground and 2nd to 11th Floors, Tak Dah Industrial Building, 66-72 Lei Muk Road, Kwai Chung, New Territories. As at the date of the New Tenancy Agreement, the entire issued share capital of TDB was held by a discretionary trust of which Mr. Peter WANG and Madam Koo, being Directors, were eligible beneficiaries. TDB was therefore a connected person of the Company and the New Tenancy Agreement constituted a continuing connected transaction for the Company under Chapter 14A of the Listing Rules (the "Continuing Connected Transactions").

Details of the New Tenancy Agreement were as follows: —

Term	:	Two years from 1 April 2005 to 31 March 2007
Monthly rental	:	HK\$371,435 (excluding management fee, government rates and government rent)
Use of the Premises	:	As factory, office and warehouse premises by the Company and certain of its subsidiaries

The terms of the New Tenancy Agreement were arrived at after arm's length negotiations between Hwa Fuh and TDB and on the basis of the valuation made by DTZ Debenham Tie Leung Limited, a firm of professional property valuer, in its letter dated 26 January 2005 that the terms (including the rental) of the New Tenancy Agreement were fair and reasonable by reference to the then prevailing market rentals for comparable properties. The Board (including the independent non-executive Directors) considered that the terms of the New Tenancy Agreement were normal commercial terms and were fair and reasonable and in the interests of the Company and its shareholders as a whole.

The annual rental payable by Hwa Fuh under the New Tenancy Agreement for each of the three financial years ending 31 December 2007 is as follows: —

Term	Amount of Rental (HK\$)
1 April 2005 to 31 December 2005	3,342,915
1 January 2006 to 31 December 2006	4,457,220
1 January 2007 to 31 March 2007	1,114,305

As the applicable percentage ratios for the rental payable by Hwa Fuh to TDB under the New Tenancy Agreement on an annual basis represented less than 2.5% as at the date of the New Tenancy Agreement, the Company was only subject to the reporting and announcement requirements and no approval from the independent shareholders of the Company was required for the entering into of the New Tenancy Agreement.

Further details of the New Tenancy Agreement were set out in the announcement of the Company dated 28 January 2005.

The independent non-executive Directors have reviewed the transaction under the New Tenancy Agreement and confirmed that the transaction has been carried out on normal commercial terms, in the ordinary and usual course of business of the Group, and in accordance with the relevant agreement governing such transaction on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In connection with the compliance with requirements of the Listing Rules in respect of the Continuing Connected Transactions between Hwa Fuh and TDB, PricewaterhouseCoopers, the auditors of the Company, have performed agreed-upon procedures and have issued a report to the Board stating the factual findings resulting from their work: —

- (a) the Continuing Connected Transactions have been approved by the respective Board of Directors of the Company and Hwa Fuh;
  - (b) the Continuing Connected Transactions have been entered into on terms in accordance with the New Tenancy Agreement; and
  - (c) the annual rent arising from the Continuing Connected Transactions did not exceed the annual monetary cap as disclosed in the Company's announcement dated 28 January 2005.
- (iii) On 17 August 2005, Prime-Time, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with Ms. Daisy TING and pursuant to which Prime-Time agreed to acquire 1,085,800 Hua Thai Shares from Ms. Daisy TING, representing approximately 10.86% of the entire issued share capital of Hua Thai (the "Acquisition"). Hua Thai Shares are listed on Thailand Stock Exchange. As at the date of the Sale and Purchase Agreement, Hua Thai was held as to approximately 36.43% of its entire issued share capital by Prime-Time. Since Ms. Daisy TING is the spouse of Mr. Peter WANG, a Director, she was a connected person of the Company and therefore the Acquisition constituted a connected transaction for the Company and was subject to the approval of the independent shareholders of the Company under Chapter 14A of the Listing Rules. The independent shareholders of the Company approved the said transaction on 6 October 2005 and the Acquisition was completed on 28 October 2005.

The purchase price for the Acquisition was Baht 108,580,000 (approximately HK\$21 million) (equivalent to Baht 100 per Hua Thai Share). The purchase price was determined after arm's length negotiations between Prime-Time and Ms. Daisy TING with reference to the then market price and prospects of Hua Thai.

Further details of the Acquisition and the Sale and Purchase Agreement were set out in the announcement of the Company dated 17 August 2005 and in the circular of the Company dated 8 September 2005.

- (iv) On 25 August 2005, Prime-Time, a wholly-owned subsidiary of the Company, entered into the Option Agreement with Madam Koo and pursuant to which Prime-Time was granted the Option, exercisable by Prime-Time at any time and at its sole discretion, to acquire 362,020 Hua Thai Shares and 451,880 NVDRs from Madam Koo at Baht 100 per Hua Thai Share and per NVDR less HK\$1.00 (to be deducted from the total exercise price in respect of all the Hua Thai Shares and the NVDRs sold under the Option), representing approximately 3.62% and 4.52% of the entire issued share capital of Hua Thai, respectively. Since Madam Koo is a Director and the mother of Mr. Peter WANG, a Director, she was a connected person of the Company and therefore the exercise of the Option constituted a connected transaction for the Company and was subject to the approval of the independent shareholders of the Company under Chapter 14A of the Listing Rules. The independent shareholders of the Company approved the said transaction on 6 October 2005 and the Option was exercised on 28 October 2005, and Prime-Time acquired 813,900 Hua Thai Shares (of which 451,880 Hua Thai Shares were converted from NVDRs) on the same day.

The total exercise price paid by Prime-Time to Madam Koo upon exercise of the Option was Baht 81,390,000 (approximately HK\$16 million) less HK\$1.00. The exercise price was determined after arm's length negotiations between Prime-Time and Madam Koo with reference to the then market price, the price per Hua Thai Share under the Sale and Purchase Agreement, the then prospects of Hua Thai and the synergy that might arise after the exercise of the Option.

Further details of the Option Agreement were set out in the announcement of the Company dated 25 August 2005 and in the circular of the Company dated 8 September 2005.

- (v) Immediately following the completion of the Acquisition and the exercise of the Option on 28 October 2005, Prime-Time held approximately 55.43% of the total voting rights attaching to the issued Hua Thai Shares. Pursuant to the Securities and Exchange Act of Thailand, Prime-Time was obliged to make a tender offer to acquire all the issued Hua Thai Shares (other than those already owned or agreed to be acquired by Prime-Time) at a tender offer price not less than the highest price per Hua Thai Share paid by Prime-Time within the 90-day period (the "Tender Offer") prior to the Tender Offer. According to rule 14A.13(1)(b)(i) of the Listing Rules, as any further acquisitions of the Hua Thai Shares by the Company/ Prime-Time constituted connected transactions for the Company, and the acceptances of the Tender Offer by any persons therefore constituted connected transactions of the Company under the Listing Rules. Accordingly, the further acquisitions pursuant to the Tender Offer, together with the Acquisition and the exercise of the Option, constituted a major and connected transaction for the Company under rule 14.06 and rule 14A.13 of the Listing Rules, respectively, and was subject to the approval of the independent shareholders of the Company under the Listing Rules. The independent shareholders of the Company approved the said transaction on 6 October 2005.

The Tender Offer commenced on 2 November 2005 and closed on 15 December 2005 at a tender offer price of Baht 100 per Hua Thai Share. At the close of the Tender Offer, Prime-Time received valid acceptances in respect of 4,152,680 Hua Thai Shares, representing approximately 41.53% of the entire issued share capital of Hua Thai. When aggregating such tendered Hua Thai Shares with those already owned by Prime-Time,

Prime-Time was interested in approximately 96.96% of the total issued capital of Hua Thai at the close of the Tender Offer. The total consideration paid for the Tender Offer was Baht 415,268,000 (approximately HK\$79 million).

Further details of the Tender Offer were set out in the announcements of the Company dated 17 and 25 August 2005, 1 and 30 November 2005, and 16 December 2005 and in the circular of the Company dated 8 September 2005.

With regard to the foregoing, the Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Hua Thai recorded a consolidated net profit of Baht 249 million (approximately HK\$48 million) for the year ended 31 December 2004. Given the locations of Hua Thai's production facilities, its customer base and its profitability, the Board was, and still is, of the view that Hua Thai was, and still is, of strategic importance to the Group. Upon completion of the Acquisition and the exercise of the Option, Hua Thai has become a subsidiary of the Company, and the Board expects that the consolidation of Hua Thai Group into the Group will create synergies in terms of greater economies of scale, utilisation of management expertise and diversification of production locations which would be beneficial to the Company and its shareholders as a whole.

The Board (including the independent non-executive Directors) considered that the Sale and Purchase Agreement and the Option Agreement were on normal commercial terms, and they were negotiated on an arm's length basis and concluded on the terms that were fair and reasonable and in the interests of the Company and its shareholders as a whole. In addition, the Board (including the independent non-executive Directors) considered that the Acquisition, the exercise of the Option and the further acquisitions pursuant to the Tender Offer (including the connected transactions arising from the acceptances of the Tender Offer) were in the interests of the Company and of its shareholders as a whole.

## **AUDITORS**

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**WANG Kin Chung, Peter**

*Chairman and Chief Executive Officer*

Hong Kong, 13 April 2006