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

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**If you are in any doubt** as to any aspect of this Offer or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If **you have sold or transferred** all your shares in Foundation Group Limited, you should at once hand this Composite Offer Document and the accompanying Form of Acceptance and Transfer to the purchaser or the transferee, or to the bank or the licensed securities dealer or registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee. This Composite Offer Document should be read in conjunction with the accompanying Form of Acceptance and Transfer, the provisions of which form part of the terms of the Offer contained herein.

The Stock Exchange of Hong Kong Limited and the Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Offer Document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Offer Document.

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**LUCK CONTINENT LIMITED**

*(Incorporated in the British Virgin Islands with limited liability)*

**FOUNDATION GROUP LIMITED**

**基業控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock code: 1182)

**COMPOSITE OFFER DOCUMENT RELATING TO  
MANDATORY UNCONDITIONAL CASH OFFER BY  
MITSUBISHI UFJ SECURITIES (HK) CAPITAL, LIMITED**

**ON BEHALF OF**

**LUCK CONTINENT LIMITED FOR ALL THE ISSUED SHARES IN THE COMPANY  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED  
BY LUCK CONTINENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

**Financial adviser to Luck Continent Limited**



**Mitsubishi UFJ Securities**

**Financial adviser to the Company**



**英皇融資有限公司  
Emperor Capital Limited**

**Independent financial adviser to the Independent Board Committee of  
Foundation Group Limited**



**WALLBANCK BROTHERS  
Securities (Hong Kong) Limited**

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A letter from the Independent Board Committee to the Independent Shareholders is set out on page 18 of this Composite Offer Document.

A letter from the Independent Financial Adviser containing their advice to the Independent Board Committee is set out on pages 19 to 39 of this Composite Offer Document.

The procedures for acceptance and settlement of the Offer are set out on pages 40 to 44 in Appendix I to this Composite Offer Document and in the accompanying Form of Acceptance and Transfer. Acceptance of the Offer should be received by the branch share registrar of the Company in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on Monday, 26 February 2007, or such later time and/or date as the Offeror may announce in accordance with the Takeovers Code.

\* For identification purposes only

5 February 2007

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## EXPECTED TIMETABLE

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2007

Opening date of the Offer .....	Monday, 5 February
Latest time and date for acceptance of the Offer ( <i>Note 1</i> ) .....	4:00 p.m. on Monday, 26 February
Closing Date of the Offer ( <i>Note 2</i> ) .....	Monday, 26 February
Announcement of the results of the Offer to be posted on the Stock Exchange's website .....	By 7:00 p.m. on Monday, 26 February
Announcement of the results of the Offer to be published in the newspapers .....	Tuesday, 27 February
Latest date for posting of remittances for the amounts due in respect of valid acceptances received under the Offer ( <i>Note 3</i> ) .....	Thursday, 8 March

*Notes:*

1. The Offer, which is unconditional, will be closed at 4:00 p.m. on Monday, 26 February 2007 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. An announcement will be issued through the Stock Exchange's website by 7:00 p.m. on Monday, 26 February 2007 stating whether the Offer has been revised or extended or has expired. Such announcement will be published in newspapers on the next Business Day thereafter. In the event that the Offeror decides that the Offer will remain open until further notice, at least 14 days' notice in writing will be given, before the Offer is closed, to those Shareholders who have not accepted the Offer. If in the course of the Offer, the Offeror revises its terms, all the Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms. A revised offer will be kept open for at least 14 days following the date on which the revised offer document is posted and will not be closed earlier than the first closing date of the Offer.
2. The consideration payable for the Offer Shares tendered under the Offer will be paid within 10 days from the date of receipt by the Registrar of the requisite documents from the Shareholders accepting the Offer.
3. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn unless the Executive requires that a right of withdrawal is granted in the event that the requirements of Rule 19 of the Takeovers Code have not been complied with.

**All time references contained in this Composite Offer Document refer to Hong Kong time.**

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## DEFINITIONS

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*In this Composite Offer Document, the following terms have the following meanings:*

“%”	per cent.
“AUD”	Australian Dollars
“Board”	board of Directors
“Business Day”	a day on which trading of securities takes place on the Stock Exchange throughout its normal trading hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	Foundation Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are currently listed on the Stock Exchange
“Composite Offer Document”	the document jointly issued by and on behalf of the Offeror and the Company to all Shareholders in accordance with the Takeovers Code containing, among other things, terms and conditions of the Offer, the Form(s) of Acceptance and Transfer, the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Offer and the advice of the Independent Board Committee to the Independent Shareholders in respect of the Offer
“Conversion Price”	the conversion price at which each Conversion Share will be issued upon a conversion of all or any part of the Note, being HK\$0.01 (subject to adjustment)
“Conversion Rights”	the rights attaching to the Note to convert the same or a part thereof into Conversion Shares
“Conversion Shares”	the Shares to be issued and allotted by the Company upon exercise by the holder of the Note of the Conversion Rights attached thereof
“Director(s)”	the director(s) of the Company
“Emperor Securities”	Emperor Securities Limited, a licensed corporation under the SFO, licensed to carry out types 1 and 4 regulated activities (dealing in securities and advising on securities) under the SFO
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director

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## DEFINITIONS

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“Exercise Period”	the three-year period from the date of the issue of the Warrant
“Exercise Price”	the sum payable in respect of each Share to which the registered holder of the Warrant will be entitled upon exercise of the subscription rights represented thereby, being HK\$0.01 per Share (subject to adjustment)
“Form(s) of Acceptance and Transfer”	the accompanying form(s) of acceptance and transfer in respect of the Offer
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board comprising the independent non-executive Directors, namely Mr. Chu Kar Wing, Dr. Chow King Wai and Mr. Tang Yiu Wing
“Independent Financial Adviser” or “Wallbank Brothers”	Wallbank Brothers Securities (Hong Kong) Limited, a licensed corporation under the SFO, licensed to carry out types 4, 6 and 9 regulated activities (advising on securities, advising on corporate finance and asset management) under the SFO
“Independent Shareholders”	Shareholders other than the Offeror and parties acting in concert with it
“Joint Announcement”	the announcement dated 22 December 2006 jointly made by the Company and the Offeror containing, amongst other things, details of the Offer
“Last Trading Day”	12 December 2006, being the last trading day of the Shares on the Stock Exchange prior to the publication of the Joint Announcement
“Latest Practicable Date”	2 February 2007, being the latest practicable date for ascertaining certain information for inclusion in this Composite Offer Document
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Mitsubishi UFJ”	Mitsubishi UFJ Securities (HK) Capital, Limited, a licensed corporation under the SFO, licensed to carry out types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities, advising on corporate finance and asset management) under the SFO
“Note”	the redeemable convertible note in the principal amount of HK\$24,000,000 to be issued to the Note Subscriber on the date of completion of the Note Subscription Agreement
“Note Subscriber”	Super Bonus Management Limited, a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding
“Note Subscription Agreement”	the conditional subscription agreement dated 19 December 2006 entered into between the Company and the Note Subscriber in relation to the issue and subscription of the Note, details of which were described in the Joint Announcement
“Note Subscription Completion”	completion of the Note Subscription Agreement
“Offer”	the unconditional cash offer for the Offer Shares by the Offeror at HK\$0.51 per Offer Share
“Offer Shares”	all existing issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it)
“Offeror”	Luck Continent Limited, a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding
“Overseas Shareholders”	Shareholders whose addresses as appeared on the register of members of the Company are outside Hong Kong
“Public Float Maintenance Steps”	the steps that the Offeror will take after completion of the Share Subscription and the close of the Offer to ensure that an adequate number of the Subscription Shares shall be sold, placed or otherwise disposed of to independent third parties so that no less than 25% of the Company’s entire issued share capital as enlarged by the Share Subscription is held by the public in compliance with the Listing Rules
“PRC”	the Peoples’ Republic of China and for the purpose of this Composite Offer Document shall exclude Hong Kong, the Macao Special Administrative Region and Taiwan

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## DEFINITIONS

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“Registrar”	Secretaries Limited, the branch share registrar of the Company in Hong Kong, the address of which is 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“SFO”	Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
“Share and Warrant Subscription Agreement”	The conditional subscription agreement dated 19 December 2006 entered into between the Company and the Offeror in relation to (i) the issue and subscription of the Subscription Shares in a cash consideration of HK\$30,000,000 and (ii) the bonus issue and subscription of the Warrant, details of which were described in the Joint Announcement
“Share and Warrant Subscription”	the subscription of the Subscription Shares and the Warrant by the Offeror upon and subject to the terms and conditions of the Share and Warrant Subscription Agreement
“Share Subscription”	the subscription of the Subscription Shares by the Offeror upon and subject to the terms and conditions of the Share and Warrant Subscription Agreement
“Share(s)”	ordinary share(s) of HK\$0.001 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Shares”	a total of 3,000,000,000 new Shares issued by the Company to the Offeror pursuant to the Share and Warrant Subscription Agreement
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Warrant(s)”	the unlisted warrant of the Company conferring rights in its registered form to the holder thereof to subscribe for Shares at an initial Exercise Price of HK\$0.01 (subject to adjustment) at any time during the Exercise Period

*For the purpose of this Composite Offer Document, unless otherwise indicated, Australian dollars have been converted into Hong Kong dollars using the rate of HK\$1: AUD0.1634.*

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## LETTER FROM THE BOARD

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# FOUNDATION GROUP LIMITED

## 基業控股有限公司\*

(incorporated in Bermuda with limited liability)  
(Stock Code: 1182)

*Executive Directors:*

Wong Ching Ping, Alex  
Lim Direk

*Independent Non-executive Directors:*

Chu Kar Wing  
Chow King Wai  
Tang Yiu Wing

*Registered office:*

Clarendon House,  
2 Church Street,  
Hamilton HM 11,  
Bermuda

*Principal Office:*

Room 1901, 19th Floor,  
Hutchison House,  
10 Harcourt Road,  
Central, Hong Kong

5 February 2007

*To the Independent Shareholders*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
MITSUBISHI UFJ SECURITIES (HK) CAPITAL, LIMITED  
ON BEHALF OF**

**LUCK CONTINENT LIMITED FOR ALL THE ISSUED SHARES IN THE COMPANY  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED  
BY LUCK CONTINENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

### INTRODUCTION

On 19 December 2006, the Company entered into the Share and Warrant Subscription Agreement with the Offeror whereby the Company has agreed to allot and issue, and the Offeror has agreed to subscribe in cash of HK\$30,000,000 for the Subscription Shares at the share subscription price of HK\$0.01 per Subscription Share. The Share and Warrant Subscription Agreement was completed on 31 January 2007, 3,000,000,000 Shares and the Warrant were issued to the Offeror.

\* For identification purposes only



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## LETTER FROM THE BOARD

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Following the completion of the Share Subscription, the Offeror and parties acting in concert with it owned in aggregate 3,000,000,000 Shares, representing approximately 97.17% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. As stated in the Joint Announcement, the Offeror is required under Rule 26 of the Takeovers Code to make a mandatory unconditional offer to acquire all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

The Independent Board Committee, comprising Mr. Chu Kar Wing, Dr. Chow King Wai and Mr. Tang Yiu Wing, who are independent non-executive Directors and have no direct or indirect interest in the Offer and are not acting in concert with the Offeror and parties acting in concert with it, has been established to consider the terms of the Offer taking into account the advice from the Independent Financial Adviser, and to advise the Independent Shareholders in respect of the Offer. The Independent Financial Adviser has been appointed to advise the Independent Board Committee on the fairness and reasonableness of the terms of the Offer. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee.

The purpose of this Composite Offer Document is to provide you with, amongst other things, (i) the information relating to the Group, the Offeror and the Offer; (ii) the letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders in respect of the Offer; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Offer; and (iv) the Form of Acceptance and Transfer.

### MANDATORY UNCONDITIONAL CASH OFFER

#### The terms of the Offer

Mitsubishi UFJ, on behalf of the Offeror, unconditionally makes the Offer in compliance with the Takeovers Code on the following basis:

For each Offer Share	HK\$0.51 in cash
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As at the Latest Practicable Date, the Company had 3,087,421,652 Shares in issue, in which 87,421,652 Shares were not owned or controlled by the Offeror and parties acting in concert with it. Leopard Vision Limited, a company indirectly wholly-owned by Mr. Wong Ching Ping Alex, an executive Director, which was interested in 20,609,330 Shares, representing approximately 0.67% of the existing issued share capital of the Company as at the Latest Practicable Date, has not indicated whether it intends to accept the Offer or not.

The Offer price of HK\$0.51 per Share represents (i) a discount of approximately 19.05% to the closing price of HK\$0.63 per Share as quoted on the Stock Exchange on 12 December 2006, being the last trading day immediately before the date of the Joint Announcement; (ii) a discount of approximately 12.07% to the average of the closing price per Share of approximately HK\$0.58 as quoted on the Stock Exchange for the last 5 trading days immediately prior to and including 12 December 2006, being the last trading day immediately before the date of the Joint Announcement; (iii) a discount of approximately 7.27% to the average of the closing price per Share of approximately HK\$0.55 as quoted on the Stock Exchange for the last 10 trading days immediately prior to and including 12 December 2006, being the

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## LETTER FROM THE BOARD

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last trading day immediately before the date of the Joint Announcement; (iv) a discount of approximately 8.93% to the average of the closing price per Share of approximately HK\$0.56 as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including 12 December 2006, being the last trading day immediately before the date of the Joint Announcement; and (v) a discount of approximately 73.98% to the closing price per Share of HK\$1.96 as quoted on the Stock Exchange on the Latest Practicable Date. The Offer price of HK\$0.51 was determined with reference to the current market price of each Share, the liquidity of the Shares and the current financial position of the Company.

As at the Latest Practicable Date, the Company had 3,087,421,652 Shares in issue. Save as the Warrant conferring rights to subscribe up to HK\$6,000,000 in aggregate in cash for Shares at an initial exercise price of HK\$0.01 per Share (subject to adjustments) issued pursuant to the Share and Warrant Subscription Agreement and the Note which is expected to be issued on the 14th Business Day after the close of the Offer pursuant to the Note Subscription Agreement, the Company does not have any other outstanding options, warrants and other securities convertible into Shares or any other derivatives.

### **Further details of the Offer**

Further details of the Offer including, among other things, the terms and conditions and the procedures for acceptance are set out in Appendix I to this Composite Offer Document on pages 40 to 44 and the accompanying Form(s) of Acceptance and Transfer.

### **INFORMATION ON THE GROUP**

The Group is engaged in apparel trading and securities trading.

According to the audited financial statement of the Company for the year ended 31 March 2006, the Company had incurred a net loss of approximately HK\$22.8 million for the year. According to the unaudited interim results for the six months ended 30 September 2006, the Company has incurred an unaudited net loss of approximately HK\$21.0 million for the six months period. Apparel trading and retailing business is the core operation for the Group. However, this segment recorded a loss of approximately HK\$11.7 million for the year ended 31 March 2006 and the turnover decreased by 4.5% compared to that for the year ended 31 March 2005. The apparel trading and retailing business recorded a loss of approximately HK\$5 million (unaudited) for the six months ended 30 September 2006 and the turnover decreased by 15.5% as compared to the relevant period in year 2005 to HK\$36.5 million for the six months ended 30 September 2006. The audited net asset value of the Company as at 31 March 2006 was approximately HK\$43.9 million, which has decreased by 12.5% compared to the audited net asset value as at 31 March 2005. The net asset value (unaudited) of the Company as at 30 September 2006 was further decreased to approximately HK\$35.8 million. As at 30 September 2006, the Group has an outstanding short-term loan in an amount of approximately HK\$9.4 million which will be due on 31 March 2007. Due to the poor performance of the business of the Group, the Group had negotiated with the financial institution to vary the repayment date of the loan. The Directors expect that no variation of the repayment date will be likely without any significant improvement in the Company's financial position.

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## LETTER FROM THE BOARD

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According to the audited financial statement of the Company for the year ended 31 March 2005, the Group recorded a consolidated turnover of approximately HK\$154.0 million, representing an increase of approximately 24.7% from HK\$123.5 million in financial year 2004. Loss from operations decreased from approximately HK\$17.8 million in financial year 2004 to approximately HK\$14.2 million (restated) for the financial year 2005. As a result of a gain from disposal of subsidiaries of approximately HK\$21.6 million, the Group recorded a consolidated profit of approximately HK\$4.6 million, against a consolidated loss of approximately HK\$5.0 million in financial year 2004. The core operation of the Group, namely, the apparel trading and retailing business of the Group had recorded a loss of approximately HK\$9.7 million in the financial year 2005. The Group is principally involved in the wholesale and retail of products through an extensive outlet network in Hong Kong, Macau and the PRC. The management had, during the financial year ended 31 March 2005, rejuvenated its business through revamping, redesigning and reposition of the brand to meet the various tastes of the fiscal urban market. The audited net asset value of the Company as at 31 March 2005 was approximately HK\$50.2 million. The total non-current assets and current assets of the Group as at 31 March 2005 were approximately HK\$9.0 million and approximately HK\$77.0 million respectively and the non-current liabilities and current liabilities were approximately HK\$2.1 million and HK\$33.7 million respectively.

The Offeror does not intend to exercise the conversion rights attached to the Warrants before the close of the Offer. The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the close of the Offer and completion of Public Float Maintenance Steps (assuming no acceptance of the Offer from Shareholders and that the subscription rights attaching to the Warrant has not exercised before the close of the Offer):

	As at		Immediately after the close of the Offer and completion of Public Float Maintenance Steps (assuming no acceptance of the Offer from Shareholders and that the subscription rights attaching to the Warrant has not exercised before close of the Offer)	
	<i>Number of Shares held</i>	<i>% of issued Shares held</i>	<i>Number of Shares held</i>	<i>% of issued Shares held</i>
<b>Shareholders</b>				
Leopard Vision Limited ( <i>Note</i> )	20,609,330	0.67	20,609,330	0.67
Offeror and parties acting in concert with it	3,000,000,000	97.17	2,294,956,909	74.33
Other public Shareholders	66,812,322	2.16	771,855,413	25.00
<b>Total</b>	<b><u>3,087,421,652</u></b>	<b><u>100.00</u></b>	<b><u>3,087,421,652</u></b>	<b><u>100.00</u></b>

*Note:* The entire issued share capital of Leopard Vision Limited is held by Byford Group Limited which in turn is held by Expert Rich Investments Limited. Expert Rich Investments Limited is wholly-owned by Mr. Wong Ching Ping Alex, an executive Director.

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## LETTER FROM THE BOARD

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### PROPOSED CHANGE OF THE COMPOSITION OF THE BOARD

As at the Latest Practicable Date, the Board comprised two executive Directors and three independent non-executive Directors. All the Directors will remain on the Board. The Offeror intends to nominate Mr. Poh Po Lian and Mr. Cheng Chee Tock, Theodore to the Board as an executive Director. The appointment of such Directors nominated by the Offeror will not take effect earlier than the date of posting of this Composite Offer Document to be issued by the Offeror in connection with the Offer in compliance with Rule 26.4 of the Takeovers Code. Further announcement will be made upon the appointment and resignation of the Directors in compliance with the Listing Rules and the Takeovers Code.

Set out below are the biographical details of Mr. Poh Po Lian and Mr. Cheng Chee Tock, Theodore proposed to be nominated to the Board:

**Mr. Poh Po Lian**, aged 48, is the sole shareholder and the sole director of the Offeror. Mr. Poh has started his career as an entrepreneur in hospitality and leisure business in Singapore since 1977. Over the last 30 years, he has acquired extensive knowledge in a number of gaming management roles in Asia, including, Singapore, Malaysia, Vietnam, Philippines and Cambodia. He has extensive experience in providing gaming machine solution in Cambodia, Vietnam and the Philippines. He was also responsible to build the Rendang Beach Resort in Malaysia and the Hainan Wenchang Golf Club in Hainan Province, the PRC. Mr. Poh is also the founder and the chairman of a private company which is a manufacturer and distributor of slot machines, progressive jackpot link system, electronic table games and trilling games. Save as disclosed above, Mr. Poh did not hold any positions in the Company or any of its subsidiaries and did not hold any directorships and other major appointments in any other listed companies on the Stock Exchange and any other stock exchange in the three years preceding the Latest Practicable Date.

**Mr. Cheng Chee Tock, Theodore**, aged 56, is the sole shareholder and sole director of the Note Subscriber. Mr. Cheng was educated in electronic and electrical engineering disciplines with the Polytechnic University of Hong Kong. He is the chairman and holds approximately 57% of the issued share capital of Sino Strategic International Limited, a company listed on the Australian Stock Exchange as at the Latest Practicable Date. As at 15 December 2006, the market capitalization of Sino Strategic International Limited was approximately AUD125.5 million (equivalent to approximately HK\$768 million). Mr. Cheng has been engaged in the lottery gaming business in the PRC for years. Save as disclosed above, Mr. Cheng did not hold any positions in the Company or any of its subsidiaries and did not hold any directorships and other major appointments in any other listed companies on the Stock Exchange and any other stock exchange in the three years preceding the Latest Practicable Date.

### INFORMATION ON THE OFFEROR AND ITS INTENTION REGARDING THE GROUP

Your attention is drawn to the section headed “Information on the Offeror and its intention regarding the Group” in the letter from Mitsubishi UFJ set out on pages 11 to 17 of this Composite Offer Document.

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## LETTER FROM THE BOARD

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### MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror intends that the Company will remain listed on the Stock Exchange after the close of the Offer and does not intend to exercise its rights to compulsorily acquire all the Shares. The Company and the Offeror has jointly and severally undertaken to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that such number of Shares as may be required by the Stock Exchange are held by the public.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) that there are insufficient Shares in public hands to maintain an orderly market, the Company will be in breach of Rule 8.08 of the Listing Rules and the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

**So long as the Company remains a listed company, the Stock Exchange will also closely monitor all future acquisitions or disposals of assets of the Company. Any acquisitions or disposals of assets by the Group will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and a circular to the Shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company.**

**The Stock Exchange also has the power to aggregate a series of acquisitions or disposals of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirements for new listing applicants as set out in the Listing Rules.**

### RECOMMENDATIONS

Your attention is drawn to the respective letters from the Independent Board Committee and the Independent Financial Adviser set out on page 18 and pages 19 to 39 of this Composite Offer Document containing their respective recommendations and advice in respect of the Offer.

### ADDITIONAL INFORMATION

Your attention is also drawn to the letter from Mitsubishi UFJ set out on pages 11 to 17 of this Composite Offer Document as well as the additional information contained in Appendices I to III to this Composite Offer Document and the accompanying Form of Acceptance and Transfer.

Yours faithfully,  
For and on behalf of the Board  
**Foundation Group Limited**  
**Wong Ching Ping, Alex**  
*Chairman*

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# LETTER FROM MITSUBISHI UFJ

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## Mitsubishi UFJ Securities

Mitsubishi UFJ Securities (HK) Capital, Limited  
11/F., AIG Tower, 1 Connaught Road, Central, Hong Kong  
Tel: 852-2860-1500 Fax: 852-2861-3010

5 February 2007

*To the independent Shareholders*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
MITSUBISHI UFJ SECURITIES (HK) CAPITAL, LIMITED  
ON BEHALF OF  
LUCK CONTINENT LIMITED FOR ALL THE ISSUED SHARES IN THE COMPANY  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED  
BY LUCK CONTINENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

### INTRODUCTION

On 19 December 2006, the Company entered into the Share and Warrant Subscription Agreement with the Offeror whereby the Company has agreed to allot and issue, and the Offeror has agreed to subscribe in cash of HK\$30,000,000 for the Subscription Shares at the share subscription price of HK\$0.01 per Subscription Share. The Share and Warrant Subscription Agreement was completed on 31 January 2007, 3,000,000,000 Shares and Warrant were issued to the Offeror.

Following the completion of the Share Subscription, the Offeror and parties acting in concert with it owned in aggregate 3,000,000,000 Shares, representing approximately 97.17% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. As stated in the Joint Announcement, the Offeror is required under Rule 26 of the Takeovers Code to make a mandatory unconditional offer to acquire all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

Unless the context requires otherwise, terms defined in this Composite Offer Document, of which this letter forms part, shall have the same meanings when used herein.

### MANDATORY UNCONDITIONAL CASH OFFER

#### The terms of the Offer

Mitsubishi UFJ, on behalf of the Offeror, unconditionally makes the Offer in compliance with the Takeovers Code on the following basis:

For each Offer Share ..... HK\$0.51 in cash

As at the Latest Practicable Date, the Company had 3,087,421,652 Shares in issue. Save as the Warrant conferring rights to subscribe up to HK\$6,000,000 in aggregate in cash for Shares at an initial exercise price of HK\$0.01 per Share (subject to adjustments) issued pursuant to the Share and Warrant Subscription Agreement and the Note which is expected to be issued on the 14th Business Day after the close of the Offer pursuant to the Note Subscription Agreement, the Company does not have any other outstanding options, warrants and other securities convertible into Shares or any other derivatives.

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## LETTER FROM MITSUBISHI UFJ

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The Offer is unconditional and is therefore not conditional upon any minimum level of acceptances being received nor subject to any other conditions.

### **Comparison of value**

The Offer price of HK\$0.51 per Share represents (i) a discount of approximately 19.05% to the closing price of HK\$0.63 per Share as quoted on the Stock Exchange on 12 December 2006, being the last trading day immediately before the date of the Joint Announcement; (ii) a discount of approximately 12.07% to the average of the closing price per Share of approximately HK\$0.58 as quoted on the Stock Exchange for the last 5 trading days immediately prior to and including 12 December 2006, being the last trading day immediately before the date of the Joint Announcement; (iii) a discount of approximately 7.27% to the average of the closing price per Share of approximately HK\$0.55 as quoted on the Stock Exchange for the last 10 trading days immediately prior to and including 12 December 2006, being the last trading day immediately before the date of the Joint Announcement; (iv) a discount of approximately 8.93% to the average of the closing price per Share of approximately HK\$0.56 as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including 12 December 2006, being the last trading day immediately before the date of the Joint Announcement; and (v) a discount of approximately 73.98% to the closing price per Share of HK\$1.96 as quoted on the Stock Exchange on the Latest Practicable Date. The Offer price of HK\$0.51 was determined with reference to the current market price of each Share, the liquidity of the Shares and the current financial position of the Company. The Offer price is not less than the highest price paid by the Offeror or any party acting in concert with it for Shares within 6 months prior to the date of the Joint Announcement and up to and including the Latest Practicable Date.

### **Total consideration and financial resources**

As at the Latest Practicable Date, the Company had 3,087,421,652 Shares in issue, in which 87,421,652 Shares were not owned or controlled by the Offeror and parties acting in concert with it. At the Offer Price of HK\$0.51 per Share, the 87,421,652 Shares is valued at approximately HK\$44.6 million.

The aggregate consideration for the Offer will be wholly financed by a loan facility provided by Emperor Securities to the Offeror. Emperor Securities and Emperor Capital Limited, the financial adviser to the Company, are subsidiaries of Emperor International Holdings Limited, a company listed on the main board of the Stock Exchange. The granting of such loan facility, under which the proceeds drawn shall be applied solely for the purpose of satisfying the purchase price of the Offer Shares under the Offer, is conditional upon, amongst other things, all the Subscription Shares subscribed by the Offeror pursuant to the Share and Warrant Subscription Agreement and all the Shares to be acquired by the Offeror under the Offer (if any) by use of the loan facility being deposited with Emperor Securities from time to time as collateral for such loan facility. The arrangement above will not result in a change of the voting rights of the Offeror in respect of the collateralized Shares. The collateralized Shares shall be released to the Offeror immediately upon full repayment of all the outstanding amounts of the loan facility and the interest thereon. The Offeror confirms that repayment of the loan facility, the interest accrued thereon or any liability thereunder would not be dependent on the business of the Company.

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## LETTER FROM MITSUBISHI UFJ

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Mitsubishi UFJ is satisfied that sufficient financial resources are available to the Offeror to satisfy the aggregate consideration for the Share Subscription and to meet full acceptance of the Offer as described above.

### **Effect of accepting the Offer**

By accepting the Offer, the Shareholders will sell their Shares and all rights attached thereto to the Offeror free from all liens, charges, claims and encumbrances and any third party rights together with all rights attached to them, including the right to receive all dividends and distributions declared, paid or made at or after the date on which the Offer are made, i.e. the date of posting of the Composite Offer Document.

### **Stamp duty**

Stamp duty at a rate of HK\$1 for every HK\$1,000 (or part thereof) of the greater of (i) the consideration payable; and (ii) the market value of relevant Shares accepted under the Offer will be deducted from the amount payable to the Shareholders who accept the Offer. The Offeror will arrange for payment of the stamp duty in connection with the acceptance of the Offer and the transfer of the Offer Shares.

### **Payment**

Payment (after the deduction of the sellers' share of stamp duty) in cash in respect of acceptances of the Offer will be made within ten days of the date of receipt of duly completed valid acceptance.

### **Intention of Leopard Vision Limited**

Leopard Vision Limited, a company indirectly wholly-owned by Mr. Wong Ching Ping Alex, an executive Director, which was interested in 20,609,330 Shares, representing approximately 0.67% of the existing issued share capital of the Company as at the Latest Practicable Date, has not indicated whether it intends to accept the Offer or not.

Save for the loan facility arrangement mentioned in the section headed "Total consideration and financial resources" above, there were no arrangements in relation to the shares of the Offeror or the Company and which might be material to the Offer. As at the Latest Practicable Date, (i) there were no agreements or arrangements to which the Offeror is a party which relate to circumstances in which it may or may not invoke or seek a pre-condition or a condition to the Offer; and (ii) none of the Offeror and parties acting in concert with it had received any irrevocable commitment to accept the Offer.

### **Compulsory acquisition**

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares after the close of the Offer.



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## LETTER FROM MITSUBISHI UFJ

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### INTEREST IN AND DEALINGS IN SECURITIES OF THE COMPANY

The Offeror confirms that during the period commencing six months prior to the date of the Joint Announcement and up to the Latest Practicable Date, (i) save for the 3,000,000,000 Shares acquired at HK\$0.01 per Subscription Share and the Warrant conferring rights to subscribe up to HK\$6,000,000 in aggregate in cash for Shares at an initial exercise price of HK\$0.01 per Share (subject to adjustments) upon completion of the Share and Warrant Subscription (i.e. 31 January 2007), the Offeror and parties acting in concert with it including Mr. Poh Po Lian did not have any shares, options, warrants, derivatives and securities convertible into Shares and (ii) save for the Share and Warrant Subscription, none of the Offeror and parties acting in concert with it including Mr. Poh Po Lian had dealt in any shares, options, warrants, derivatives and securities convertible into Shares.

### HIGHEST AND LOWEST CLOSING PRICES OF THE SHARES

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the six-month period preceding the date of the Joint Announcement and ending on the Latest Practicable Date were HK\$2.14 per Share on 30 January 2007 and HK\$0.51 per Share on 30 November 2006, 1 December 2006, 4 December 2006 and 5 December 2006 respectively.

### INFORMATION ON THE OFFEROR AND ITS INTENTION REGARDING THE GROUP

The Offeror is a private limited company incorporated in the British Virgin Islands. It has not carried on any business activities since its incorporation other than the entering into of the Share and Warrant Subscription Agreement. Mr. Poh Po Lian is the sole shareholder and the sole director of the Offeror. The Offeror and its ultimate beneficial owner are independent of and not acting in concert with any other Shareholders.

The Offeror intends that the Group will continue its existing businesses following the close of the Offer. Meanwhile, the Offeror will conduct a review of the business operation and financial position of the Group for the purpose of formulating business plans and strategies for streamlining the existing business operation and improving the financial position of the Group and for the future business development of the Group. Subject to the result of the review and should suitable investment or business opportunities arise, the Offeror may consider leveraging the gaming business experience of its sole shareholder and diversifying the business of the Group including business in relation to the gaming industry in Asia, with an objective to broaden its income source. Currently, the Offeror is assessing the business opportunity of offering peer-to-peer on-line tournament games such as poker games in internet cafes in the PRC by meeting with various on-line game service providers and internet cafes operators in the PRC. The assessment is still in a preliminary stage. No concrete plans have yet been decided at this stage. The Offeror has no intention to make any material changes to the continued employment of the employees of the Group or to re-deploy the fixed assets of the Group other than in the ordinary course of business of the Group.

Saved as disclosed under the section headed "Proposed change of the composition of the Board", it is the intention of the Offeror that there will be no material change in the existing management of the Group following the close of the Offer.

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## LETTER FROM MITSUBISHI UFJ

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### PROPOSED CHANGE OF THE COMPOSITION OF THE BOARD

As at the Latest Practicable Date, the Board comprised two executive Directors and three independent non-executive Directors. All the Directors will remain on the Board. The Offeror intends to nominate Mr. Poh Po Lian and Mr. Cheng Chee Tock, Theodore to the Board as executive Directors. The appointment of such Directors nominated by the Offeror will not take effect earlier than the date of posting of this Composite Offer Document to be issued by the Offeror in connection with the Offer in compliance with Rule 26.4 of the Takeovers Code. Further announcement will be made upon the appointment and resignation of the Directors in compliance with the Listing Rules and the Takeovers Code.

Set out below are the biographical details of Mr. Poh Po Lian and Mr. Cheng Chee Tock, Theodore proposed to be nominated to the Board:

**Mr. Poh Po Lian**, aged 48, is the sole shareholder and the sole director of the Offeror. Mr. Poh has started his career as an entrepreneur in hospitality and leisure business in Singapore since 1977. Over the last 30 years, he has acquired extensive knowledge in a number of gaming management roles in Asia, including, Singapore, Malaysia, Vietnam, Philippines and Cambodia. He has extensive experience in providing gaming machine solution in Cambodia, Vietnam and the Philippines. He was also responsible to build the Rendang Beach Resort in Malaysia and the Hainan Wenchang Golf Club in Hainan Province, the PRC. Mr. Poh is also the founder and the chairman of a private company which is a manufacturer and distributor of slot machines, progressive jackpot link system, electronic table games and trilling games. Save as disclosed above, Mr. Poh did not hold any positions in the Company or any of its subsidiaries and did not hold any directorships and other major appointments in any other listed companies on the Stock Exchange and any other stock exchange in the three years preceding the Latest Practicable Date.

**Mr. Cheng Chee Tock, Theodore**, aged 56, is the sole shareholder and sole director of the Note Subscriber. Mr. Cheng was educated in electronic and electrical engineering disciplines with the Polytechnic University of Hong Kong. He is the chairman and holds approximately 57% of the issued share capital of Sino Strategic International Limited, a company listed on the Australian Stock Exchange as at the Latest Practicable Date. As at 15 December 2006, the market capitalization of Sino Strategic International Limited was approximately AUD125.5 million (equivalent to approximately HK\$768 million). Mr. Cheng has been engaged in the lottery gaming business in the PRC for years. Save as disclosed above, Mr. Cheng did not hold any positions in the Company or any of its subsidiaries and did not hold any directorships and other major appointments in any other listed companies on the Stock Exchange and any other stock exchange in the three years preceding the Latest Practicable Date.

### MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) that there are insufficient Shares in public hands to maintain an orderly market, the Company will be in breach of Rule 8.08 of the Listing Rules and the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

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## LETTER FROM MITSUBISHI UFJ

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The Offeror intends that the Company will remain listed on the Stock Exchange after the close of the Offer and does not intend to exercise its rights to compulsorily acquire all the Shares. The Company and the Offeror has jointly and severally undertaken to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that such number of Shares as may be required by the Stock Exchange are held by the public.

**So long as the Company remains a listed company, the Stock Exchange will also closely monitor all future acquisitions or disposals of assets of the Company. Any acquisitions or disposals of assets by the Group will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and a circular to the Shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company.**

**The Stock Exchange also has the power to aggregate a series of acquisitions or disposals of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirements for new listing applicants as set out in the Listing Rules.**

### **Further details of the Offer**

Further details of the Offer including, among other things, the terms and conditions and the procedures for acceptance are set out in Appendix I to this Composite Offer Document on pages 40 to 44 and the accompanying Form of Acceptance and Transfer.

### **GENERAL**

#### **Dealing disclosure**

Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 of the Takeovers Code and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant rules of the Takeovers Code. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7-day period is less than HK\$1 million.

This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediates are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediates will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.

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## LETTER FROM MITSUBISHI UFJ

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### Recommendations

To ensure equality of treatment of all Shareholders, those registered Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Shares whose investments are registered in nominee names to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer.

The attention of Overseas Shareholders is drawn to the section headed “Overseas Shareholders” in Appendix I to this Composite Offer Document.

Independent Shareholders are strongly advised to consider carefully the information contained in the letter from the Board, the letter from the Independent Board Committee and the letter from the Independent Financial Adviser set out in this Composite Offer Document.

Your attention is drawn to the additional information set out in the Appendices, which form part of this Composite Offer Document.

Yours faithfully,

For and on behalf of

**Mitsubishi UFJ Securities (HK) Capital, Limited**

**Gary S.K. Sik**

*Managing Director*

**Angel O.K. Wong**

*Associate Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Offer:*



### FOUNDATION GROUP LIMITED

基業控股有限公司\*

*(incorporated in Bermuda with limited liability)*  
(Stock Code: 1182)

5 February 2007

*To the Independent Shareholders*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
MITSUBISHI UFJ SECURITIES (HK) CAPITAL, LIMITED  
ON BEHALF OF  
LUCK CONTINENT LIMITED FOR ALL THE ISSUED SHARES IN THE COMPANY  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED  
BY LUCK CONTINENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

As the Independent Board Committee, we have been appointed to advise you in connection with the Offer, details of which are set out in the Composite Offer Document dated 5 February 2007 jointly issued by the Offeror and the Company, of which this letter forms part. Terms used in this letter have the same meanings as given to them in the Composite Offer Document unless the context otherwise requires.

Your attention is drawn to the “Letter from the Board” and the “Letter from Mitsubishi UFJ” as set out on pages 5 to 10 and pages 11 to 17 respectively of the Composite Offer Document and the “Letter from the Independent Financial Adviser” as set out on pages 19 to 39 of the Composite Offer Document containing their advice to the Independent Board Committee regarding the Offer. Having considered the advice given in the letter from the Independent Financial Adviser that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, we concur with the advice from the Independent Financial Adviser to recommend the Independent Shareholders to accept the Offer.

Yours faithfully,

For and on behalf of the Independent Board Committee of  
**Foundation Group Limited**

**Mr. Chu Kar Wing**  
*Independent*  
*non-executive Director*

**Dr. Chow King Wai**  
*Independent*  
*non-executive Director*

**Mr. Tang Yiu Wing**  
*Independent*  
*non-executive Director*

\* For identification purposes only

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## LETTER FROM WALLBANCK BROTHERS

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*The following is the full text of a letter of advice from Wallbanck Brothers, the Independent Financial Adviser to the Independent Board Committee, which has been prepared for the purpose of incorporation into the Composite Offer Document, setting out its advice to the Independent Shareholders in connection with the Offer.*



**WALLBANCK BROTHERS**  
**Securities (Hong Kong) Limited**  
1005B, Tower 1, Lippo Centre,  
89 Queensway, Central,  
Hong Kong

5 February 2007

*To the Independent Board Committee of  
Foundation Group Limited*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
MITSUBISHI UFJ SECURITIES (HK) CAPITAL, LIMITED  
ON BEHALF OF  
LUCK CONTINENT LIMITED FOR ALL THE ISSUED SHARES IN THE COMPANY  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED  
BY LUCK CONTINENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee with respect to the terms of the Offer, details of which are set out in the “Letter from the Board” and the “Letter from Mitsubishi UFJ” contained in the composite offer and response document dated 5 February 2007 (the “Composite Offer Document”) to the Shareholders, of which this letter forms part. Unless otherwise the context requires, terms used in this letter have the same meanings as defined elsewhere in the Composite Offer Document.

In accordance with Rule 2.8 of the Takeovers Code, the Independent Board Committee (comprising Mr. Chu Kar Wing, Dr. Chow King Wai and Mr. Tang Yiu Wing, being all the independent non-executive Directors) has been formed to advise the Independent Shareholders on the terms of the Offer. We have been appointed by the Company in accordance with Rule 2.1 of the Takeovers Code as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer and such appointment has been approved by the Independent Board Committee.

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## LETTER FROM WALLBANCK BROTHERS

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### **BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have relied on the accuracy of the information, opinions and representations provided to us by the Directors and management of the Company, and have assumed that all information, opinions and representations contained or referred to in the Composite Offer Document were true and accurate at the time when they were made and will continue to be accurate at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Composite Offer Document were reasonably made after due enquiry. We have no reasons to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We consider that we have received sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Composite Offer Document to provide a reasonable basis for our opinions and recommendations. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Composite Offer Document, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company.

In formulating our opinion, we have relied on the financial information provided by the Company, particularly, on the accuracy and reliability of financial statements and other financial data of the Company. We have not audited, compiled nor reviewed the said financial statements and financial data. We shall not express any opinion or any form of assurance on them. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. The Directors have also advised us that no material facts have been omitted from the information to reach an informed view, and we have no reason to suspect that any material information has been withheld. We have not carried out any feasibility study on any past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Company. Our opinion has been formed on the assumption that any analysis, estimation, forecast, anticipation, condition and assumption provided by the Company are valid and sustainable. Our opinions shall not be constructed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Company.

In formulating our opinion, we have not considered the taxation implications on the Independent Shareholders arising from acceptances or non-acceptances of the Offer as these are particular to the individual circumstances of each Shareholder. It is emphasized that we will not accept responsibility for any tax effect on or liability of any person resulting from his or her acceptance or non-acceptance of the Offer. In particular, the Independent Shareholders who are overseas residents or are subject to overseas taxation or Hong Kong taxation on securities dealings should consult their own tax positions, and if in any doubt, should consult their own professional advisers.

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## LETTER FROM WALLBANCK BROTHERS

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In formulating our opinion, we have made reference to analysis on comparables on a non-exhaustive, best knowledge and endeavor basis.

Our opinions are necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of, the Latest Practicable Date. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein which may come or be brought to our attention during and after the Offer period.

Our opinions are formulated only and exclusively for the purpose of the Offer and shall not be used for any other purpose in any circumstance nor for any comparable purpose with any other opinions.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion to the Independent Board Committee in respect of the Offer, we have taken into consideration the following principal factors and reasons:

#### **Background to the Offer**

The Company, incorporated in Bermuda with limited liability, is engaged in apparel trading, securities trading and strategic investments and its Shares are listed on the Stock Exchange. As at the Latest Practicable Date, the Company had a market capitalisation of approximately HK\$6,051 million.

On 19 December 2006, the Company entered into the Share and Warrant Subscription Agreement with the Offeror whereby the Company has agreed to allot and issue, and the Offeror has agreed to subscribe in cash of HK\$30,000,000 for the Subscription Shares at the share subscription price of HK\$0.01 per Subscription Share. The Share and Warrant Subscription Agreement was completed on 31 January 2007, 3,000,000,000 Shares and the Warrant were issued to the Offeror with rights conferred to subscribe up to HK\$6,000,000 in aggregate in cash for Shares at an initial price of HK\$0.01 per Share (subject to adjustments).

Following the completion of the Share Subscription, the Offeror and parties acting in concert with it owned in aggregate 3,000,000,000 Shares, representing approximately 97.17% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. As stated in the Joint Announcement upon completion of the Share Subscription, the Offeror is required under Rule 26 of the Takeovers Code to make a mandatory unconditional offer to acquire all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it).



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## LETTER FROM WALLBANCK BROTHERS

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### THE MANDATORY UNCONDITIONAL CASH OFFER

#### 1. Principal terms of the Offer

##### *The Offer price*

Mitsubishi UFJ, on behalf of the Offeror, unconditionally makes the Offer in compliance with the Takeovers Code on the following basis:

**For each Offer Share ..... HK\$0.51 in cash**

The Offer price of HK\$0.51 per Share represents:

- (a) a discount of approximately 19.05% to the closing price of HK\$0.63 per Share as quoted by the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 12.07% to the average closing price of HK\$0.58 per Share for the 5 trading days up to and including the Last Trading Day;
- (c) a discount of approximately 7.27% to the average closing price of HK\$0.55 per Share for the 10 trading days up to and including the Last Trading Day;
- (d) a discount of approximately 8.93% to the average closing price of HK\$0.56 per Share for the 30 trading days up to and including the Last Trading Day;
- (e) a premium of approximately 24.70% over the unaudited consolidated net asset value per Share of approximately HK\$0.409 per Share based on the unaudited accounts of the Company as at 30 September 2006; and
- (f) a discount to approximately 73.98% to the closing price of HK\$1.96 per Share as quoted by the Stock Exchange on the Latest Practicable Date.

Further terms and condition of the Offer, including the procedures for acceptance, are set out in the “Letter from Mitsubishi UFJ” and Appendix I to the Composite Offer Document.

## LETTER FROM WALLBANCK BROTHERS

### 2. Business review of the Group

The Group is principally engaged in apparel trading, securities trading and strategic investments. A summary of the audited consolidated income statements of the Group for the three years ended 31 March 2006 and unaudited results of the Group for the six months ended 30 September 2006 are set out in Table 1 below:

**Table 1: Financial performance of the Group**

	For the six months ended 30 September 2006 <i>(Note)</i> <i>(unaudited)</i> <i>HK\$'000</i>	2006		For the year ended 31 March 2005		2004	
		Continuing operations <i>(audited)</i> <i>HK\$'000</i>	Discontinued operations <i>(Note)</i> <i>HK\$'000</i>	Continuing operations <i>(restated)</i> <i>(audited)</i> <i>HK\$'000</i>	Discontinued operations <i>(restated)</i> <i>(audited)</i> <i>HK\$'000</i>	Continuing operations <i>(restated)</i> <i>(audited)</i> <i>HK\$'000</i>	Discontinued operations <i>(restated)</i> <i>(audited)</i> <i>HK\$'000</i>
Turnover	36,569	91,891	–	151,939	2,013	77,061	46,461
Profit/ (Loss) from operations	(7,396)	(23,258)	–	(14,150)	(140)	(18,557)	788
Profit/ (Loss) before taxation	(21,011)	(22,787)	–	(16,801)	21,434	(5,109)	764
Net profit/ (loss) for the year/period	(21,011)	(22,787)	–	(16,801)	21,399	(5,162)	119
Net asset value	35,754	43,919	–	50,205	–	24,084	35,387
Earnings/ (loss) per Share (cents)	(6.68)	(2.70)	–	(4.35)	5.55	(1.88)	0.04
	(6.68)	(2.70)	–	1.20	–	(1.84)	–
Net asset value per Share (\$)	0.41	0.03	–	0.11	–	0.06	0.10
	0.41	0.03	–	0.11	–	0.16	–

*Note:* There had been no discontinued operation since the year ended 31 March 2005

*Source:* Company annual report for the three years ended 31 March 2006 and interim report for the period ended 30 September 2006

Based on the Company's annual report for the year ended 31 March 2005 (the "2005 Annual Report"), the Group recorded consolidated turnover of approximately HK\$154.0 million, representing an increase of approximately 24.7% from HK\$123.5 million in 2004. Loss from operations decreased from approximately HK\$17.8 million in 2004 to approximately HK\$14.2 million (restated) for the year. It is indicated in the 2005 Annual Report that, boosted by a gain on disposal of subsidiaries of approximately HK\$21.6 million, the Group recorded a consolidated profit of approximately HK\$4.6 million, against a consolidated loss of approximately HK\$5.0 million in 2004.

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## LETTER FROM WALLBANCK BROTHERS

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As stated in the 2005 Annual Report, there were three business segments, namely apparel trading and retailing, securities trading and financial services and long distance and continuing education, in which the former two business segments showed improvements. The apparel trading and retailing segment was the core business for the Group. It is principally involved in the wholesale and retail of products through an extensive outlet network in Hong Kong, Macau and the PRC and due to the economic improvement across the region and rebound in the retail market, the segment had reduced its loss to approximately HK\$9.7 million for the year, compared with a loss of approximately HK\$14.3 million for the period from the date of acquisition of the apparel trading and retailing business on 26 September 2003 to 31 March 2004. Furthermore, the securities trading and financial services segment recorded an increase in turnover from approximately HK\$1.1 million in 2004 to approximately HK\$61.0 million for 2005, after the Group decided to re-participate in the equity investment market. Regarding the long distance and continuing education segment, the Group had 49% equity interest in Global Institute, Inc., together with its subsidiary, principally engaged in organizing and providing higher education programs to mature students in Hong Kong and the PRC. The segment had recorded a minimal profit during 2005.

Based on the Company's annual report for the year ended 31 March 2006 (the "2006 Annual Report"), the Group recorded a consolidated turnover of approximately HK\$91.9 million, representing a decrease of approximately 39.5% from HK\$151.9 million (restated) in 2005. The net loss for 2006 was approximately HK\$22.8 million compared with the profit of HK\$4.6 million, mainly attribute to the gain on disposal of subsidiaries of approximately HK\$21.6 million, in the 2005. The drop in turnover is mainly due to the decrease in turnover in the securities trading segment as well as the discontinued operations including i) the container depots and logistics management services operations and ii) the freight forwarding and vessel operating common carrier services operations, ceasing to contribute to the Group for the year.

As stated in the 2006 Annual Report, the apparel trading and retailing segment recorded a loss of approximately HK\$11.7 million for the year, compared with a loss of approximately HK\$9.7 million for 2005. Turnover decreased by 4.5% to HK\$86.9 million. The said operation has been heavily affected by keen competition and serious piracy in the PRC, which accounted for the decrease in turnover. However, due to the effort from sales and marketing in clearing slow moving stock, there was a write back of provision for slow moving stock of approximately HK\$5,195,000, as a result, the profit margin was slightly improved compared with last corresponding year. Regarding the securities trading operation, it resulted in a profit of HK\$189,000 for 2006, compared with a profit of HK\$26,000 in 2005, with a turnover of HK\$5.0 million, down from HK\$61.0 million in 2005 due to a more prudent investment approach together with a portfolio composition of longer term investment.

As extracted from the Company's interim report for the six months ended 30 September 2006 (the "Interim Report"), during the six-month period, the Group recorded a consolidated turnover of approximately HK\$36.6 million, representing a decrease of approximately 23.5% from approximately HK\$47.8 million as compared with the last year's corresponding period. The decrease in turnover was mainly due to the low turnover in the securities trading segment for the period. The net loss of the Group for the period was approximately HK\$21.0 million (2005: HK\$13.6 million), out of which approximately HK\$13.3 million net loss was arising from loss on sale of available-for-sale financial assets.

The gearing ratio (calculated by total short term loans as a percentage to the net assets value of the Group) of the Group increased from 21.5% as at 31 March 2006 to 26.2% as at 30 September 2006.

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## LETTER FROM WALLBANCK BROTHERS

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### 3. Future prospects of the Group

According to the Interim Report, the Group had decided to close down some image counters due to high guarantee commission payment for apparel operation. Those counters were replaced by sales counter, of which the rents were charged without minimum guarantee. The Group expected a lower sales turnover but a higher profit margin as a result.

The Group had extended its apparel wholesales operation to more mainland provinces. The management will cautiously monitor its retail outlets expansion in mainland China, in particular the second-tier cities while trying to control operation cost and sustain gross profits. The Group is also considering bringing in more wholesales partners to further its market penetration.

Whereas in Hong Kong, the management will keep the growing momentum of its wholesale business with the existing and potential partners. It plans to launch more bargain counters in order to clear off-season stock and work with retail partners in joint promotions to boost sales volume.

On the other hand, the Group has been actively exploring new investment opportunities with a view to broaden and diversify its income base. However, as mentioned in the Interim Report, the Group had been funding its operations entirely by shareholders' equity and cash generated from operations and short term loan. As at 30 September 2006, short term loan of HK\$9.4 million was outstanding and the gearing ratio was increased from 21.5% as at 31 March 2006 to 26.2% as at 30 September 2006. The short term financing structuring of the Group has been hindering the management's efforts in seeking new investments opportunities in which substantial long term capital investment is required. As a result, the management endeavours to seek longer term sources of funding for the Group with a view to strengthen its financial positions as well as to allow the Group more flexibility in exploring new investment opportunities.

Having taken into account the Group's current loss making operations and doubtful future prospect on apparel business, we are of the opinion that the Offer provides a ready exit for the Independent Shareholders to realize their investments in the Shares which may not exist in the open market.

Independent Shareholders who are confident of the Group's prospects may consider not accepting the Offer. However, they should carefully consider the risks and uncertainties.

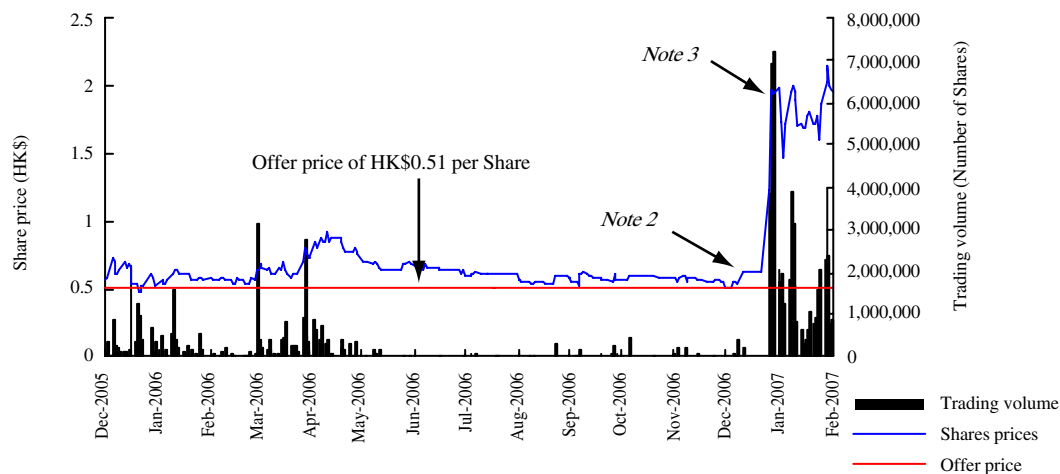
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## LETTER FROM WALLBANCK BROTHERS

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### 4. Historical Share price performance and trading liquidity

Tabularised below is a chart which illustrates a full year of historical Share price performance and trading liquidity in respect to the daily closing prices and trading volumes of the Shares traded on the Main Board of the Stock Exchange from December 2005 (being the first trading month of the twelve-month period prior to the release of the Joint Announcement) to the Latest Practicable Date (both dates inclusive, the “Relevant Period”):



*Notes:*

1. On market days when the Shares are not traded, the closing price equals to that of the preceding trading day.
2. Trading of the Shares was suspended from 12 December 2006 to 22 December 2006, pending the release of the Joint Announcement, both days inclusive.
3. 22 December 2006, being the date of the Joint Announcement

*Source: Stock Exchange website*

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## LETTER FROM WALLBANCK BROTHERS

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(a) *Share price performance*

The highest, lowest, month/period-end and monthly average daily closing prices of the Shares for each of the months during the Relevant Period were as follows:

<b>Month</b>	<b>Highest closing price <i>HK\$</i></b>	<b>Lowest closing price <i>HK\$</i></b>	<b>Month/ period-end closing price <i>HK\$</i></b>	<b>Monthly average daily closing price <i>HK\$</i></b>
<b>2005</b>				
December	0.72	0.48	0.52	0.60
<b>2006</b>				
January	0.64	0.54	0.56	0.59
February	0.64	0.54	0.64	0.56
March	0.80	0.58	0.72	0.66
April	0.92	0.76	0.76	0.83
May	0.70	0.64	0.69	0.67
June	0.69	0.59	0.59	0.65
July	0.63	0.59	0.60	0.61
August	0.59	0.54	0.58	0.56
September	0.63	0.53	0.56	0.58
October	0.59	0.56	0.58	0.58
November	0.59	0.51	0.51	0.56
December ( <i>Note</i> )	1.98	0.51	1.95	0.77
<b>2007</b>				
January	2.14	1.32	2.00	1.82
February (up to and including the Latest Practicable Date)	1.98	1.96	1.96	1.97

*Note:* Trading of the Shares was suspended from 12 December 2006 to 22 December 2006, pending the release of the Joint Announcement, both days inclusive.

*Source:* Stock Exchange website

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## LETTER FROM WALLBANCK BROTHERS

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During the Relevant Period, the closing prices of the Shares fluctuated within a range between HK\$2.14 per Share to HK\$0.48 per Share. The Offer price of HK\$0.51 per Share represents a premium of approximately 6.25% over the lowest closing price of HK\$0.48 per Share and a discount of approximately 44.57% to the highest closing price of HK\$0.92 per Share prior to the Last Trading Day. Following the release of the Joint Announcement and up to the Latest Practicable Date, the Shares have generally traded above the Offer price, closing within a range of HK\$1.24 per Share to HK\$2.14 per Share.

As illustrated above, the price of the Shares had been hovered around the Offer price of HK\$0.51 per Share prior to the Last Trading Day. The price of the Shares rose significantly above the Offer price to HK\$2.14 at 30 January 2007 subsequent to the issue of the Joint Announcement, which was likely to be attributable to the positive reaction of the market to the Offer. We note that the Offeror has just taken control over the shareholding of the Company. As stated in the Letter from Mitsubishi UFJ, the Offeror intends to conduct a review of the financial position and operations of the Group as well as currently in assessing the business opportunity of offering peer-to-peer on-line tournament games such as poker games in internet cafes in the PRC. Since it will take time for the Offeror to rebuild the business of the Group, we consider the immediate upsurge of the price of the Shares as speculative in nature and we are unable to comment at this stage on whether the current Share price level could be sustained in the future. As such, we consider that the Offer is beneficial to the Independent Shareholder as it provides an opportunity for them to dispose of their investments in the Shares in this uncertain speculative trading environment.

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## LETTER FROM WALLBANCK BROTHERS

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(b) *Trading liquidity of the Shares*

Table 2 below set out the total number and average daily number of Shares traded per month and the respective percentages of monthly trading volume compared to the issued share capital and the Shares held by the Independent Shareholders during the Relevant Period:

**Table 2: Historical trading volume of the Shares**

Month	Total turnover	Highest daily turnover	Lowest daily turnover	Average daily turnover	Number of trading days with no turnover	Percentage of	Percentage of
						average daily turnover to total number of Shares held by the Independent Shareholders	average daily turnover to total number of Shares held by the Independent Shareholders
	<i>(in number of Shares)</i>	<i>(in number of Shares)</i>	<i>(in number of Shares)</i>	<i>(in number of Shares)</i>	<i>(in days)</i>	<i>(Note 1)</i>	<i>(Note 2)</i>
						<i>(%)</i>	<i>(%)</i>
<b>2005</b>							
December	8,910,593	2,137,925	17,500	445,530	0	0.50963	0.66684
<b>2006</b>							
January	5,210,928	1,579,065	15,000	274,259	0	0.31372	0.41049
February	4,310,839	3,156,125	0	215,542	1	0.24655	0.32261
March	9,314,827	2,787,450	250	404,992	0	0.46326	0.60616
April <i>(Note 3)</i>	5,037,200	886,000	42,000	296,306	0	0.33894	0.44349
May	538,914	155,314	0	26,946	9	0.03082	0.04033
June	113,600	50,250	0	5,164	13	0.00591	0.00773
July	265,864	90,000	0	12,660	11	0.01448	0.01895
August	476,082	300,000	0	20,699	13	0.02368	0.03098
September	776,406	231,650	0	36,972	8	0.04229	0.05534
October	502,908	445,460	0	25,145	12	0.02876	0.03764
November	720,772	221,512	0	32,762	8	0.03748	0.04904
December <i>(Note 4)</i>	18,700,318	7,215,363	0	1,870,032	3	2.13909	2.79893
<b>2007</b>							
January	35,751,275	4,001,250	268,750	1,625,058	0	1.85887	2.43227
February (up to and including the Latest Practicable Date)	1,635,350	895,000	740,350	817,675	0	0.93532	1.22384
Average				407,316			



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## LETTER FROM WALLBANCK BROTHERS

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*Notes:*

1. Based on 87,421,652 total issued Shares as at the Last Trading Day.
2. Based on the total number of Shares held by the Independent Shareholders of 66,812,322 Shares as at the Latest Practicable Date.
3. The Shares were consolidated on the basis of 20 into 1 on 27 April 2006.
4. Trading of the Shares was suspended from 12 December 2006 to 22 December 2006, pending the release of the Joint Announcement, both days inclusive.

*Source: Stock Exchange website*

As illustrated in Table 2, the daily trading volume of the issued Shares up to and including the Last Trading Day has been extremely thin at less than 1% of both of the total issued Shares and the total Shares held by the Independent Shareholders immediately before the Offer. The highest monthly trading volume was recorded in March 2006 at 9,314,827 Shares with an average daily trading volume of approximately 404,992 Shares represented approximately 0.61% of the total Shares held by the Independent Shareholders. Since then, the total trading volume decreased considerably and gradually to approximately 720,772 Shares in November 2006 with an average daily trading volume of approximately 32,762 Shares representing approximately 0.05% of the total Shares held by the Independent Shareholders.

Following the release of the Joint Announcement, the total daily trading volume increased from 231,000 Shares on 12 December 2006 to 3,815,720 Shares and 6,906,685 Shares on 27 December 2006 and 28 December 2006 respectively (being the two successive trading days following the release of the Joint Announcement) which are substantially higher than the average daily trading volume of 407,316 Shares for the Relevant Period. However, we consider that such a sudden upsurge of market interest in the Shares is mainly attributable to the Joint Announcement and hence may not be sustainable in the long run. The aggregate amount of Shares owned by the Independent Shareholders as at the Latest Practicable Date represents approximately 164.03 times of the average daily trading volume for the Relevant Period. Based on the above, we consider that the trading of the Shares was thin and inactive during the Relevant Period.

### **5. Indicative valuation benchmarks**

*(a) Net asset value ("NAV")*

The unaudited consolidated NAV of the Group as at 30 September 2006 was approximately HK\$35,754,000 (equivalent to approximately HK\$0.409 per Share based on 87,421,652 Shares in issued as at 30 September 2006). The Offer price represents a premium of approximately 24.70% over the unaudited consolidated NAV of the Group as at 30 September 2006.

Based on the Interim Report, out of the Group's total assets, being approximately HK\$68.48 million, only approximately 2.10% was contributed by non-current assets. Over 40% of the total assets of the Group were contributed by inventories which was approximately HK\$32.86 million as at 30 September 2006, solely comprising merchandise goods in apparel for sales.

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## LETTER FROM WALLBANCK BROTHERS

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(b) *Price/earnings multiples*

Price/earnings multiple is one of the most commonly used benchmarks, taken into account the nature of business, for valuing a company. However, given that the Company has recorded net loss for the year ended 31 March 2006, the use of price/earnings multiples as reference to assess the Offer price may not be applicable.

(c) *Dividend yield*

The Company did not declare any dividend in the last three financial years ended 31 March 2006. It is therefore impracticable for us to assess the Offer price in terms of dividend yield represents.

### **6. Comparison with Market Comparables**

In assessing the fairness and reasonableness of the Offer price, we intend to use other recent cash offers for shares of companies listed on the Main Board of the Stock Exchange for comparison. To the best of our knowledge and based on the information from the Stock Exchange's website, we understand that there is no company listed on the Main Board that is engaged in identical business with the Company. In order to ensure that there is reasonable number of comparable companies, we therefore set out in the following table with data of all cash offers made during the Relevant Period for shares of companies listed on the Main Board (given that they had all reported net loss in their latest published annual, interim and/or quarterly reports immediately before announcements of their respective offers) (the "Market Comparables"). The Shareholders shall be fully aware that the comparability of the Market Comparables may be affected because of difference in business, size etc. The table below shows a comparison of the respective offer prices to the relevant closing price as at the last trading day and respective NAV of the Market Comparables.

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**LETTER FROM WALLBANCK BROTHERS**

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**Table 3: Market Comparables**

Company (Stock code)	Principal activities	Date of offer announcement	Offer price per share (HK\$)	Relevant closing price as at last trading day (HK\$)	NAV/ (net liability) per share based on the latest published figures prior to the offer (Note 1) (HK\$)	Premium (discount) of the offer price over/to the: closing price as at the last trading day (%)	NAV per share (%)
MAXX Bioscience Holdings Limited (512)	Manufacture and sales of pharmaceutical and health products and trading of securities	16/12/2005	0.075	0.103	0.111	(27.18)	(32.43)
China Motion Telecom International Limited (989)	Provision of international telecommunication services, mobile communications services and distribution and retail chain	12/1/2006	0.069	0.115	0.468	(40.00)	(85.26)
Magnum International Holdings Limited (305)	Securities dealing and brokerage, money lending and property investment	30/3/2006	0.032	0.080	(0.087)	(60.00)	N.A.

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**LETTER FROM WALLBANCK BROTHERS**

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Company (Stock code)	Principal activities	Date of offer announcement	Offer price per share (HK\$)	Relevant closing price as at last trading day (HK\$)	NAV/ (net liability) per share based on the latest published figures prior to the offer (Note 1) (HK\$)	Premium (discount) of the offer price over/to the:	
						closing price as at the last trading day (%)	NAV per share (%)
Nority International Group Limited (660)	Manufacture and export of athletic and athletic-style leisure footwear	30/3/2006	0.470	0.410	0.780	14.63	(39.74)
CSMC Technologies Corporation (597)	Own and operate the open semiconductor foundries in China, provide manufacturing services mainly for CMOS logic, mixed signal, high voltage and non-volatile memory integrated circuits	12/5/2006	0.420	0.400	0.457	5.00	(8.10)
Shun Cheong Holdings Limited (650)	Provision of a multi-discipline of building services and project management, trading of electrical and mechanical engineering materials and equipment	16/5/2006	0.300	0.370	0.730	(18.92)	(58.90)
Golden Resorts Group Limited (1031)	Operation of hotels, gaming and entertainment business	25/7/2006	1.940	2.000	1.990	(3.00)	(2.51)

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**LETTER FROM WALLBANCK BROTHERS**

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Company (Stock code)	Principal activities	Date of offer announcement	Offer price per share (HK\$)	Relevant closing price as at last trading day (HK\$)	NAV/ (net liability) per share based on the latest published figures prior to the offer (Note 1) (HK\$)	Premium (discount) of the offer price over/to the closing price as at the last trading day (%)	NAV per share (%)
Hanny Holdings Limited (275)	Manufacture, distribution and marketing of data storage media, distribution and marketing of computer accessories and storage media drives, scanners, AV products, household electronic products and telecom accessories	1/9/2006	3.800	3.530	7.880	7.65	(51.78)
China Motion Telecom International Limited (989)	Provision of international telecommunication services, mobile communications services and distribution and retail chain	8/09/2006 & 18/9/2006	0.055	0.110	0.100	(50.00)	(45.00)
Cosmopolitan International Holdings Limited (120)	Securities trading in equity securities listed on global stock markets, property investment in residential units and office space for rental income, provides information technology system and service wireless Internet access	4/10/2006	0.050	0.086	0.139	(41.86)	(64.03)
Apex Capital Limited (905)	Investment in listed and unlisted companies in Hong Kong and in the PRC	31/10/2006	0.0695	0.074	0.040	(6.08)	73.75

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## LETTER FROM WALLBANCK BROTHERS

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Company (Stock code)	Principal activities	Date of offer announcement	Offer price per share (HK\$)	Relevant closing price as at last trading day (HK\$)	NAV/ (net liability) per share based on the latest published figures prior to the offer (Note 1) (HK\$)	Premium (discount) of the offer price over/to the closing price as at the last trading day (%)	NAV per share (%)
Nority International Group Limited (660)	Manufacture and export of athletic and athletic-style leisure footwear	24/11/2006	0.412	0.470	0.529	(12.34)	(22.10)
Mean						(19.34)	(30.55) (Note 2)
Median						(15.63)	(39.74) (Note 2)
Foundation Group Limited (1182)	Apparel trading, securities trading and strategic investments	22/12/2006	0.51	0.630	0.409	(19.05)	24.70

*Notes:*

1. Based on the NAV/net liability and number of shares in issue as at the respective offer document/financial year/period end date as stated in the latest financial reports of the respective companies issued prior to the announcement of the cash offers.
2. Those denoted N.A. as shown in the column above represents not applicable and have been excluded in the computation of the mean and median figures as the relevant company recorded audited/unaudited net liability for the relevant financial year.

*Source: Stock Exchange website*

As depicted in the above table, the offer prices for the Market Comparables ranged from a discount of approximately 60.00% to a premium of approximately 14.63% in the comparison with the closing prices of the respective offered shares immediately prior to the release of the announcements of the relevant cash offers and with a mean and median of approximately 19.34% and 15.63% as discounts respectively. We note that the discount of the Offer price to the closing price of the Shares as at the Last Trading Day of approximately 19.05% was close to the mean and slightly higher than the median of such offers.

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## LETTER FROM WALLBANCK BROTHERS

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On the other hand, the discount/premium of the offer price to/over the NAV of the respective offered share varied significantly and ranged from a discount of approximately 85.26% to a premium of approximately 73.75%. The mean and median of the Market Comparables were approximately 30.55% and 39.74% as discounts respectively. Amongst all the Market Comparables, we note that majority of the Market Comparables' offer prices to NAV were of discounts with the exception of one company offer price, namely Apex Capital Limited (the "One Company"). The premium of its offer price over NAV was approximately 73.75%, the highest amongst the Market Comparables. We note that the premium of the Offer price over the unaudited consolidated NAV per Share of approximately 24.70% was within the range of Market Comparables and is above the mean and median as discounts of such offers. As such, the Offer price is more attractive than those of the Market Comparables, with the said one exception, on the mere basis of NAV per share in their latest published annual, interim and / or quarterly reports immediately before announcements of their respective offers.

Having taking into account the poor operating results of the Group, the doubtful future prospects on apparel business, the low liquidity of the Shares and the comparison with other offer cases, we consider the Offer price is fair and reasonable so far as the interest of the Independent Shareholders are concerned.

**The Shareholders shall be fully aware that since the Market Comparables consist of positive and negative values, the analysis may have net off effect.**

### **7. Proposed change of the composition of the Board**

According to the Letter from the Board, as at the Latest Practicable Date, the Board comprised two executive Directors and three independent non-executive Directors. All the Directors will remain on the Board. The Offeror intends to nominate Mr. Poh Po Lian and Mr. Cheng Chee Tock, Theodore to the Board as executive Directors. The appointment of such Directors nominated by the Offeror will not take effect earlier than the date of posting of this Composite Offer Document to be issued by the Offeror in connection with the Offer in compliance with Rule 26.4 of the Takeovers Code. Further announcement will be made upon the appointment and resignation of the Directors in compliance with the Listing Rules and the Takeovers Code.

Set out below are the biographical details of Mr. Poh Po Lian and Mr. Cheng Chee Tock, Theodore proposed to be nominated to the Board:

**Mr. Poh Po Lian**, aged 48, is the sole shareholder and the sole director of the Offeror. Mr. Poh has started his career as an entrepreneur in hospitality and leisure business in Singapore since 1977. Over the last 30 years, he has acquired extensive knowledge in a number of gaming management roles in Asia, including, Singapore, Malaysia, Vietnam, Philippines and Cambodia. He has extensive experience in providing gaming machine solution in Cambodia, Vietnam and the Philippines. He was also responsible to build the Rendang Beach Resort in Malaysia and the Hainan Wenchang Golf Club in Hainan Province, the PRC. Mr. Poh is also the founder and the chairman of a private company which is a manufacturer and distributor of slot machines, progressive jackpot link system, electronic table games and trilling games. Save as disclosed above, Mr. Poh did not hold any positions in the Company or any of its subsidiaries and did not hold any directorships and other major appointments in any other listed companies on the Stock Exchange and any other stock exchange in the three years preceding the Latest Practicable Date.

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## LETTER FROM WALLBANCK BROTHERS

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**Mr. Cheng Chee Tock, Theodore**, aged 56, is the sole shareholder and sole director of the Note Subscriber. Mr. Cheng was educated in electronic and electrical engineering disciplines with the Polytechnic University of Hong Kong. He is the chairman and holds approximately 57% of the issued share capital of Sino Strategic International Limited, a company listed on the Australian Stock Exchange as at the Latest Practicable Date. As at 15 December 2006, the market capitalization of Sino Strategic International Limited was approximately AUD125.5 million (equivalent to approximately HK\$768 million). Mr. Cheng has been engaged in the lottery gaming business in the PRC for years. Save as disclosed above, Mr. Cheng did not hold any positions in the Company or any of its subsidiaries and did not hold any directorships and other major appointments in any other listed companies on the Stock Exchange and any other stock exchange in the three years preceding the Latest Practicable Date.

### **8. Information on the Offeror and its intention regarding the Group**

As stated in the Letter from Mitsubishi UFJ, the Offeror is a private limited company incorporated in the British Virgin Islands. It has not carried on any business activity since its incorporation other than the entering into of the Share and Warrant Subscription Agreement. Mr. Poh Po Lian is the sole shareholder and director of the Offeror. The Offeror and its ultimate beneficial owner are independent of and not acting in concert with any other Shareholders.

The Offeror intends that the Group will continue its existing businesses following the close of the Offer. Meanwhile, the Offeror will conduct a review of the business operation and financial position of the Group for the purpose of formulating business plans and strategies for streamlining in the existing business operation and improving the financial position of the Group and for the future business development of the Group. Subject to the result of the review and should suitable investment or business opportunities arise, the Offeror may consider leveraging the gaming business experience of its sole shareholder and diversifying the business of the Group including business in relation to the gaming industry in Asia, with an objective to broaden its income source. Currently, the Offeror is accessing the business opportunity of offering peer-to-peer on-line tournament games such as poker games in internet cafes in the PRC by meeting with various on-line game service providers and internet cafes operators in the PRC. The assessment is still in a preliminary stage. No concert plans have been decided at this stage. The Offeror has no intention to make any material changes to the continued employment of the employees of the Group or to re-deploy the fixed assets of the Group other than in the ordinary course of business of the Group.

Saved as disclosed under the section headed "Proposed change of the composition of the Board", it is the intention of the Offeror that there will be no material change in the existing management of the Group following the close of the Offer.



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## LETTER FROM WALLBANCK BROTHERS

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### 9. Intention of Leopard Vision Limited

As stated in the Letter from Mitsubishi UFJ, Leopard Vision Limited, a company indirectly wholly-owned by Mr. Wong Ching Ping Alex, an executive Director, which is interested in 20,609,330 Shares, representing approximately 0.67% of the existing issued share capital of the Company, has not indicated whether it intends to accept the Offer or not. Save for the loan facility arrangement mentioned in the Letter from Mitsubishi UFJ with section headed "Total Consideration and financial resources", there were no arrangements in relation to the shares of the Offeror or the Company and which might be material to the Offer. As at the Latest Practicable Date, (i) there were no agreements or arrangements to which the Offeror is a party which relate to circumstances in which it may or may not invoke or seek a pre-condition or a condition to the Offer; and (ii) none of the Offeror and parties acting in concert with it had received any irrevocable commitment to accept the Offer.

### 10. Maintenance of the listing of the Shares

The Offeror intends that the Company will remain listed on the Stock Exchange after the close of the Offer and does not intend to exercise its rights to compulsorily acquire all the Shares. The Company and the Offeror has jointly and severally undertaken to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that such number of Shares as may be required by the Stock Exchange are held by the public.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) that there are insufficient Shares in public hands to maintain an orderly market, the Company will be in breach of Rule 8.08 of the Listing Rules and the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

**The Shareholders shall be fully aware that so long as the Company remains a listed company, the Stock Exchange will also closely monitor all future acquisitions or disposals of assets of the Company. Any acquisitions or disposals of assets by the Group will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and a circular to the Shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company.**

**The Stock Exchange also has the power to aggregate a series of acquisitions or disposals of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirements for new listing applicants as set out in the Listing Rules.**

### RECOMMENDATION

Having considered the principal factors and reasons as discussed above and as summarized below:

- (i) the deteriorating financial performance of the Group for the year ended 31 March 2006 and the six months ended 30 September 2006;

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## LETTER FROM WALLBANCK BROTHERS

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- (ii) the doubtful future of apparel business of the Group as illustrated in the paragraph headed “Future Prospects of the Group” in this letter;
- (iii) the lack of liquidity of the Shares during the Relevant Period which may hinder the Independent Shareholders from disposing of their Shares in the market after the close of the Offer without triggering substantial price fall in the Shares;
- (iv) the Offer price represents a premium of approximately 24.70% over the unaudited consolidated NAV per Share as at 30 September 2006 which is within the range of that of the relevant Market Comparables despite of the wide range which included the exceptionally high premium of the One Company and is above the mean and median as discounts of the Market Comparables’ offer prices to NAV; and
- (v) the Offer price represents a discount of approximately 19.05% to the closing price of the Shares as at the Last Trading Day which is within the range of that relevant Market Comparables and close to the mean and slightly higher than the median of the relevant Market Comparable’s offer prices to closing prices of the last trading days.

Having considered the above factors and reasons and Directors’ representations, on balance, we are of opinion that in such circumstances of the Group, the Offer is fair and reasonable so far as the Independent Shareholders are concerned.

The Share price has gone up recently and Shareholders might want to take advantages of the peak to sell the Shares in the market to realise a higher price than the Offer price if they are not going to hold the Shares.

Those Independent Shareholders who decide to retain part or all of their investments in the Shares should carefully consider the future intentions of the Offeror regarding the Company and the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offer. For further details, Independent Shareholders should refer to the Letter from Mitsubishi UFJ.

Accordingly, we recommend the Independent Board Committees to advise the Independent Shareholders to accept the Offer.

The Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in Appendix I to the Composite Offer Document and are strongly advised that the decision to realise or hold their investment in the Shares is subject to individual circumstances and investment objectives.

Yours faithfully,  
For and on behalf of  
**Wallbanck Brothers**  
**Securities (Hong Kong) Limited**

**Phil Chan**  
*Chief Executive Officer*

**1. PROCEDURES FOR ACCEPTANCE****The Offer**

If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name and you wish to accept the Offer, you must send the duly completed Form of Acceptance and Transfer together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title and/or any satisfactory indemnity or indemnities required in respect thereof, to the branch share registrar of the Company, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in any event not later than 4:00 p.m. on Monday, 26 February 2007 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.

If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or some names other than your own and you wish to accept the Offer in respect of your Shares, whether in full or in part, you must either:

- (a) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), with the nominee company, or other nominee, and with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the Form of Acceptance and Transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
- (b) arrange for the Shares to be registered in your name by the Company through the Registrar and send the Form of Acceptance and Transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
- (c) if your Shares have been lodged with your licensed securities dealer/custodian bank through CCASS, instruct your licensed securities dealer/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/custodian bank as required by them; or
- (d) if your Shares have been lodged with your investor participant's account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.

If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are not readily available and/or is/are lost (as the case may be) and you wish to accept the Offer, the Form of Acceptance and Transfer should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s), you should also write to the Registrar to request for a letter of indemnity which, when completed in accordance with the instruction given, should be returned to the Registrar.

If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer, you should nevertheless complete the Form of Acceptance and Transfer and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to any of Mitsubishi UFJ, the Company, the Offeror or any of their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such share certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Offer, as if it/they were delivered to the Registrar with the Form of Acceptance and Transfer.

An acceptance may not be counted as valid unless:

- (a) it is received by the Registrar on or before the latest time for acceptance at 4:00 p.m. on Monday, 26 February 2007 and the Registrar has recorded that the acceptance and any relevant documents required under paragraph (b) below have been so received; and
- (b) the Form of Acceptance and Transfer is duly completed and is:
  - (i) accompanied by share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Share(s) and, if that/those Share certificate(s) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Shares in blank or in your favour executed by the registered holder) in order to establish your right to become the registered holder of the relevant Share(s); or
  - (ii) from a registered Shareholder or his/her personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under other sub-paragraphs of this paragraph (b)); or
  - (iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance and Transfer is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

No acknowledgement of receipt of any Form(s) of Acceptance and Transfer, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

## **2. SETTLEMENT**

Provided that the Form(s) of Acceptance and Transfer and relevant Share certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order and have been received by the Registrar by not later than 4:00 p.m. on Monday, 26 February 2007 being the latest time for acceptance of the Offer, a cheque for the amount due to the accepting Shareholders in respect of the Shares tendered by them under the Offer, less seller's ad valorem stamp duty payable by them, will be despatched to the accepting Shareholders to the addresses specified on the Forms of Acceptance and Transfer by ordinary post at their own risk within 10 days of the date on which all the relevant documents are received by the Registrar to render such acceptance complete and valid.

Settlement of the consideration to which any accepting Shareholder(s) is/are entitled under the Offer will be implemented in full in accordance with the terms of the Offer (save with respect of the payment of ad valorem stamp duty) without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Shareholder.

## **3. ACCEPTANCE PERIOD AND REVISIONS**

- (a) The Offeror reserves the right, subject to the Takeovers Code, to extend the Offer after the despatch of this Composite Offer Document. Unless the Offer has been revised or extended, all Forms of Acceptance and Transfer must be received by the Registrar at 4:00 p.m. on Monday, 26 February 2007 and the Offer will close on Monday, 26 February 2007.
- (b) The Offeror reserves the rights, subject to the Takeovers Code, to revise or extend the terms of the Offer. If in the course of the Offer, the Offeror revises its terms, all the Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms. A revised Offer must be kept open for at least 14 days following the date on which the revised offer document is posted. If the Offer is revised or extended in accordance with the Takeovers Code, an announcement of such revision or extension will be published stating the new closing date of the Offer.

## **4. ANNOUNCEMENTS**

- (i) By 6:00 p.m. on Monday, 26 February 2007, which is the closing date of the Offer, or such later time and/or date as the Executive may in exceptional circumstances permit, the Offeror must inform the Executive and the Stock Exchange of its intention in relation to revision, extension, expiry or unconditionality of the Offer. The Offeror shall publish an announcement on the Stock Exchange's website at [www.hkex.com.hk](http://www.hkex.com.hk) by 7:00 p.m. on the closing date of the Offer stating whether the Offer has been revised, extended or has expired. Such announcement will be published on the next Business Day in accordance with paragraph (ii) below. The announcement shall specify the number of Shares and the rights over Shares (a)

for which valid acceptances have been received; (b) held, controlled or directed by the Offeror or parties acting in concert with it before the Offer period; and (c) acquired or agreed to be acquired by the Offeror or any parties acting in concert with it during the Offer period.

The announcement must also specify the percentages of the relevant classes of share capital and the percentages of voting rights of the Company represented by these numbers of Shares.

- (ii) As required under the Takeovers Code and the Listing Rules, all announcements in relation to the Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be published as a paid announcement in at least one leading English language newspaper and one leading Chinese language newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong. An announcement on the results of the Offer will be published on Tuesday, 27 February 2007.

## **5. RIGHT OF WITHDRAWAL**

Acceptance of the Offer tendered by the Independent Shareholders shall be irrevocable unless the Executive requires that a right of withdrawal is granted in the event that the requirements of Rule 19 of the Takeovers Code have not been complied with.

## **6. STAMP DUTY**

Stamp duty at a rate of HK\$1 for every HK\$1,000 (or part thereof) of the greater of (i) the amounts payable in respect of relevant acceptances; and (ii) the market value of relevant Shares accepted under the Offer will be deducted from the amounts payable to the Shareholders who accept the Offer. The Offeror will then pay such stamp duty deducted to the stamp office of the Inland Revenue Department of Hong Kong on behalf of such Shareholders who accept the Offer.

## **7. TAXATION**

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their accepting the Offer. It is emphasised that none of the Offeror, or Mitsubishi UFJ or any of their respective directors or any persons involved in the Offer accept responsibility for any tax effects or liabilities of any person or persons as a result of their acceptance of the Offer.

## **8. OVERSEAS SHAREHOLDERS**

The making of the Offer to Overseas Shareholders may be prohibited or affected by the laws of the relevant jurisdiction. Overseas Shareholders should obtain appropriate legal advice on, acquaint themselves with and observe any applicable legal requirement. It is the responsibility of each Overseas Shareholder who wishes to accept the Offer to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements.

**9. GENERAL**

- (i) Acceptance of the Offer by any person or persons holding Shares will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares acquired under the Offer are sold by any such person or persons free from all claims, liens, charges, encumbrances, equities and third party rights and together with all rights attaching thereto, including the right to receive all dividends and distributions declared, made or paid on or after the posting of this Composite Offer Document.
- (ii) All communications, notices, Forms of Acceptance and Transfer, Share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Shareholders will be delivered by or sent to or from them, or their respective agents, through post at their own risk, and none of the Offeror, Mitsubishi UFJ, the Registrar or any of their respective agents, accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (iii) The provisions set out in the Form of Acceptance and Transfer form part of the terms of the Offer.
- (iv) The accidental omission to despatch this Composite Offer Document and/or the Form of Acceptance and Transfer or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.
- (v) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (vi) Due execution of a Form of Acceptance and Transfer will constitute an authority to the Company, any director of the Company, the Offeror, any director of the Offeror, Mitsubishi UFJ, or such person or persons as the Offeror may direct, to complete and execute any document on behalf of the person or persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct, the Shares in respect of which such person or persons has/have accepted the Offer.
- (vii) References to the Offer in this Composite Offer Document and in the Form of Acceptance and Transfer shall include any revision thereof.
- (viii) The English texts of this Composite Offer Document and the accompanying Form of Acceptance and Transfer shall prevail over their respective Chinese texts.

## 1. FINANCIAL SUMMARY

The following is a summary of the audited results, assets and liabilities of the Group for the three years ended 31st March 2006:

**Result**

*For the year ended 31 March*

	2006		2005 (Restated)		2004 (Restated)	
	Continuing operations HK\$'000	Discontinued operations HK\$'000	Continuing operations HK\$'000	Discontinued operations HK\$'000	Continuing operations HK\$'000	Discontinued operations HK\$'000
TURNOVER	91,891	-	151,939	2,013	77,061	46,461
(LOSS)/PROFIT FROM OPERATIONS	(23,258)	-	(14,150)	(140)	(18,557)	788
FINANCE COSTS	(1,929)	-	(1,242)	-	(4,876)	(2)
GAIN ON DISPOSAL OF SUBSIDIARIES ATTRIBUTABLE TO DISCONTINUED OPERATIONS	-	-	-	21,574	-	-
LOSS ON DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY	-	-	-	-	-	-
SHARE OF RESULTS OF ASSOCIATES	-	-	14	-	135	-
OTHER NON-OPERATING ITEMS	2,400	-	(1,423)	-	18,189	(22)
(LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION	(22,787)	-	(16,801)	21,434	(5,109)	764
TAXATION	-	-	-	-	(53)	(603)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS	(22,787)	-	(16,801)	21,434	(5,162)	161
MINORITY INTERESTS	-	-	-	(35)	-	(42)
NET (LOSS)/PROFIT FOR THE YEAR	(22,787)	-	(16,801)	21,399	(5,162)	119
(LOSS)/EARNINGS PER SHARE						
Basic	(2.70) cents	-	(4.35) cents	5.55 cents	(1.88) cents	0.04 cents
Diluted	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL ASSETS	73,350	-	86,070	-	101,130	76,244
TOTAL LIABILITIES	(29,431)	-	(35,865)	-	(77,046)	(46,540)
MINORITY INTERESTS	-	-	-	-	-	5,683
SHAREHOLDERS' FUNDS	43,919	-	50,205	-	24,084	35,387



*Notes:*

- (i) Comparative figures for 2004 and 2005 have been restated as a result of the adoption of new Hong Kong Financial Reporting Standards.
- (ii) For each of the three years ended 31st March 2006, there is no minority interests or extraordinary or exceptional items noted.
- (iii) For each of the three years ended 31st March 2006, there is no qualified or modified opinion contained in the respective auditors' reports of the Group.

## 2. FINANCIAL STATEMENTS

Set out below is the audited financial information of the Group for the two years ended 31st March 2006 as extracted from the annual report of the Company for the year ended 31st March 2006:

**Consolidated Income Statement**

*For the year ended 31 March 2006*

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i> (Restated)
<b>CONTINUING OPERATION</b>			
<b>TURNOVER</b>	6	91,891	151,939
Cost of sales		(46,658)	(109,586)
Gross profit		45,233	42,353
Other revenue	8	666	5,169
Selling and distribution costs		(38,780)	(37,783)
Administrative expenses		(24,071)	(21,780)
Other operating expenses	9	(84)	(245)
Write back/(Provision) for loan receivables		211	(21)
Amortisation of goodwill arising on acquisition of subsidiaries		–	(1,843)
Impairment loss of goodwill arising on acquisition of subsidiaries		(6,433)	–
<b>Loss from operations</b>	10	(23,258)	(14,150)
Gain on disposal of subsidiaries		2,400	–
Finance costs	11	(1,929)	(1,242)
Share of results of associates		–	14
Amortisation of goodwill arising on acquisition of associates		–	(192)
Impairment loss of goodwill arising on acquisition of associates		–	(1,231)
<b>LOSS BEFORE TAXATION</b>		(22,787)	(16,801)
Taxation	14	–	–
<b>LOSS FROM CONTINUING OPERATIONS</b>		(22,787)	(16,801)
<b>DISCONTINUED OPERATIONS</b>			
Profit from discontinued operations	15	–	21,434
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<u>(22,787)</u>	<u>4,633</u>
<b>Attributable to:</b>			
Equity holders of the parent		(22,787)	4,598
Minority interests		–	35
		<u>(22,787)</u>	<u>4,633</u>
<b>(LOSS)/EARNINGS PER SHARE</b>	16		
Basic			
– Continuing operation		(2.70) cents	(4.35) cents
– Discontinued operation		–	5.55 cents
		<u>(2.70) cents</u>	<u>1.20 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

**Consolidated Balance Sheet***As at 31st March 2006*

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	<i>17</i>	2,534	1,430
Goodwill	<i>18</i>	–	6,433
Interest in an unconsolidated subsidiary	<i>20</i>	–	1,159
Interests in associates	<i>21</i>	–	–
Available-for-sale financial assets	<i>22</i>	2,807	–
		<u>5,341</u>	<u>9,022</u>
<b>Current assets</b>			
Inventories	<i>23</i>	38,073	40,728
Trade and other receivables, deposits and prepayments	<i>24</i>	13,535	12,070
Loan receivables		–	1,139
Other investments	<i>25</i>	–	1,134
Held-for-trading investments	<i>26</i>	44	–
Pledged bank deposits		1,736	2,725
Bank and cash balances	<i>27</i>	14,621	19,252
		<u>68,009</u>	<u>77,048</u>
<b>Current liabilities</b>			
Trade and other payables, accruals and deposits received	<i>28</i>	19,029	17,313
Short term loan	<i>29</i>	9,443	16,434
		<u>28,472</u>	<u>33,747</u>
<b>Net current assets</b>		<u>39,537</u>	<u>43,301</u>
<b>Total assets less current liabilities</b>		<u>44,878</u>	<u>52,323</u>
<b>Non-current liabilities</b>			
Amount due to an unconsolidated subsidiary	<i>20</i>	–	1,159
Provision for long service payments	<i>31</i>	959	959
		<u>959</u>	<u>2,118</u>
<b>NET ASSETS</b>		<u><u>43,919</u></u>	<u><u>50,205</u></u>
<b>Capital and reserves</b>			
Share capital	<i>32</i>	1,748	437
Reserves	<i>34</i>	42,171	49,768
<b>TOTAL EQUITY</b>		<u><u>43,919</u></u>	<u><u>50,205</u></u>

**Balance Sheet***As at 31st March 2006*

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Interests in subsidiaries	<i>19</i>	—	44,790
<b>Current assets</b>			
Other receivables, deposits and prepayments		98	100
Bank balances		32	21
		<u>130</u>	<u>121</u>
<b>Current liabilities</b>			
Other payables		1,436	686
<b>Net current liabilities</b>		<u>(1,306)</u>	<u>(565)</u>
<b>(Excess of current liabilities over total assets)/</b>			
<b>Total assets less current liabilities</b>		(1,306)	44,225
<b>Amount due to a subsidiary</b>	<i>19</i>	—	2,500
<b>NET (LIABILITIES)/ASSETS</b>		<u><u>(1,306)</u></u>	<u><u>41,725</u></u>
<b>Capital and reserves</b>			
Share capital	<i>32</i>	1,748	437
Reserves	<i>34</i>	(3,054)	41,288
<b>TOTAL EQUITY</b>		<u><u>(1,306)</u></u>	<u><u>41,725</u></u>

**Consolidated Summary Statement of Changes in Equity***For the year ended 31 March 2006*

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
<b>TOTAL EQUITY</b>		
As at 1 April	50,205	59,471
Change in fair value of available-for-sales financial assets	(12,845)	–
Reserves realised upon disposal of subsidiaries	(9)	–
Reserves realised upon disposal of subsidiaries attributable to discontinued operations	–	(20,631)
Placing of new shares, net of expenses	–	6,767
Open offer, net of expenses	29,355	–
(Loss)/Profit for the year	(22,787)	4,598
As at 31 March	<u>43,919</u>	<u>50,205</u>

**Consolidated Cash Flow Statement***For the year ended 31 March 2006*

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i> (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss)/Profit from continuing and discontinued operations		
before taxation	(22,787)	4,633
Adjustments for:		
Depreciation	1,696	1,066
Interest income	(38)	(81)
Interest expenses	1,929	1,242
Gain on disposal of subsidiaries	(2,400)	–
Gain on disposal of subsidiaries attributable to discontinued operations	–	(21,574)
Loss on disposal of property, plant and equipment	47	174
Amortisation of goodwill arising on acquisition of subsidiaries	–	1,843
Impairment loss of goodwill arising on acquisition of subsidiaries	6,433	–
Amortisation of goodwill arising on acquisition of associates	–	192
Impairment loss of goodwill arising on acquisition of associates	–	1,231
Write down of inventories to net realisable value	–	9,186
(Write back)/Provision for loan receivables	(211)	21
Provision for bad and doubtful debts, net	84	215
Provision for long service payments	–	44
Write back of provision for slow-moving inventories	(5,195)	–
Write back of amounts due to other payables	–	(2,721)
Unrealised loss on other investments, net	–	30
Unrealised gain on held-for-trading investments	(13)	–
Share of results of associates	–	(14)
	<hr/>	<hr/>
Operating loss before working capital changes	(20,455)	(4,513)
Decrease/(Increase) in inventories	7,850	(1,943)
(Increase)/Decrease in trade and other receivables, deposits and prepayments	(1,549)	4,852
Decrease/(Increase) in other investments	1,134	(1,164)
Increase in held-for-trading investments	(31)	–
Increase/(Decrease) in trade and other payables, accruals and deposits received	4,369	(3,369)
Decrease in provision for long service payments	–	(44)
	<hr/>	<hr/>
Cash used in operations	(8,682)	(6,181)
Interest paid	(2,144)	(975)
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(10,826)</b>	<b>(7,156)</b>

**Consolidated Cash Flow Statement** *(continued)**For the year ended 31 March 2006*

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i> (Restated)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	38	81
Purchase of property, plant and equipment	(2,847)	(1,288)
Proceeds from disposal of subsidiaries	598	–
Proceeds from disposal of subsidiaries attributable to discontinued operations	–	34,302
Acquisition of available-for-sale financial assets	(15,653)	–
Decrease in loan receivables	706	16
Decrease/(Increase) in pledged bank deposits	989	(2,725)
	<u>(16,169)</u>	<u>30,386</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from placing of new shares, net of expenses	–	6,767
Proceeds from open offer, net of expenses	29,355	–
New short term loans	17,650	7,700
Repayment of short term loans	(24,641)	(36,783)
	<u>22,364</u>	<u>(22,316)</u>
Net cash (used in)/generated from investing activities		
Net cash generated from/(used in) financing activities		
	<u>(4,631)</u>	<u>914</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	<u>(4,631)</u>	<u>914</u>
<b>CASH AND CASH EQUIVALENTS AS AT 1 APRIL</b>	<u>19,252</u>	<u>18,338</u>
<b>CASH AND CASH EQUIVALENTS AS AT 31 MARCH</b>	<u><u>14,621</u></u>	<u><u>19,252</u></u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	<u><u>14,621</u></u>	<u><u>19,252</u></u>

**Notes to the Financial Statements***For the year ended 31 March 2006***1. GENERAL**

The Company is incorporated in Bermuda 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 of the annual report.

The principal activities of the Company is investment holding. During the year ended 31 March 2006, its subsidiaries were engaged in apparel trading, securities trading and strategic investments.

**2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has had no material effect on how the results for the prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required. 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 years are prepared and presented:

**HKFRS 2 Share-based Payment**

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 share 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.

**HKFRS 3 Business combination and HKAS 36 Impairment of Assets**

In prior years, goodwill/negative goodwill arising on acquisition prior to 1 April 2001 was held in reserves and was not recognised in the income statement until disposal or impairment of the relevant subsidiary or associate.

Goodwill arising on acquisition after 1 April 2001 was recognised as an asset and amortised on a straight line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill arising on acquisition after 1 April 2001 was carried in the balance sheet and was released to income based on an analysis of the circumstances from which the balance resulted.

Upon adoption of HKFRS 3 Business Combination and HKAS 36 Impairment of Assets, goodwill arising on acquisition is no longer amortised but subject to an annual impairment review (including in the year of its initial recognition), or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

In excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates, after reassessment, is recognised immediately in the income statement.

In accordance with the transitional provisions of HKFRS 3, the Group:

- i) ceased to amortise goodwill from 1 April 2005 onwards and eliminated at 1 April 2005 the carrying amounts of accumulated amortisation of approximately HK\$2,782,000 with a corresponding entry to the cost of goodwill. The effect of the changes is a decrease in amortisation of goodwill of approximately HK\$1,843,000 for the year; and
- ii) derecognised the existing negative goodwill reserve, which amounted to approximately HK\$26,986,000 by way of an adjustment to the accumulated losses at 1 April 2005.



In accordance with the transitional provision of HKFRS 3, comparative amounts have not been restated.

In addition, the excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of a subsidiary acquired by the Group during the year over the cost of acquisition in an amount of approximately HK\$36,000 was fully recognised as income for the year.

#### **HKAS 24 Related Party Disclosures**

HKAS 24 Related Party Disclosures has expanded the definition of related parties to include key management of the Group and some other related-party disclosures.

#### **HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement**

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

(i) Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 March 2005, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in equity securities are classified as "investment securities" or "other investments" as appropriate, "investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. From 1 April 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale financial assets that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

(ii) Financial assets and financial liabilities other than equity securities

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

The Group has applied the relevant transitional provision in HKAS 39. On 1 April 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Other investments with carrying amount of approximately HK\$1,134,000 were reclassified to held-for-trading investments at fair value through profit or loss on 1 April 2005.

#### **HKAS 33 Earnings Per Share**

HKAS 33 Earnings Per Share prescribes principles for the determination and presentation of earnings per share. It requires separate disclosure of basic and diluted earnings per share from continuing operations on the face of the income statement. The adoption of HKAS 33 has resulted in changes in the presentation of the Group's earnings per share on the face of the income statement.

## Summary of the effects of the changes in accounting policies

- (i) The cumulative effects of the application of the new HKFRSs on 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 <i>HK\$'000</i> (Originally stated)	Prospective adjustments (HKFRS 3 and HKAS 32 & 39) <i>HK\$'000</i>	As at 1 April 2005 <i>HK\$'000</i> (Restated)
Balance sheet items			
Property, plant and equipment	1,430	–	1,430
Goodwill	6,433	–	6,433
Other investments	1,134	(1,134)	–
Held-for-trading investments	–	1,134	1,134
Other assets	77,073	–	77,073
Other liabilities	(35,865)	–	(35,865)
Total effect on assets and liabilities	<u>50,205</u>	<u>–</u>	<u>50,205</u>
Share capital	437	–	437
Accumulated losses	(660,141)	26,986	(633,155)
Other reserves	709,909	(26,986)	682,923
Total effect on equity	<u>50,205</u>	<u>–</u>	<u>50,205</u>

- (ii) The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no or any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosure <sup>1</sup>
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures <sup>2</sup>
HKAS 21 (Amendment)	The effects of changes in foreign exchange rate – net investment in a foreign operation <sup>2</sup>
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>
HKAS 39 (Amendment)	The fair value option <sup>2</sup>
HKAS 39 and HKFRS 4 (Amendment)	Financial guarantee contracts <sup>2</sup>
HKFRS 6	Exploration for and evaluation of mineral resources <sup>2</sup>
HKFRS 7	Financial instruments disclosures <sup>1</sup>
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease <sup>2</sup>
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment <sup>3</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies <sup>4</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>5</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>6</sup>

<sup>1</sup>	Effective from annual periods beginning on or after	1 January 2007
<sup>2</sup>	Effective from annual periods beginning on or after	1 January 2006
<sup>3</sup>	Effective from annual periods beginning on or after	1 December 2005
<sup>4</sup>	Effective from annual periods beginning on or after	1 March 2006
<sup>5</sup>	Effective from annual periods beginning on or after	1 May 2006
<sup>6</sup>	Effective from annual periods beginning on or after	1 June 2006

### 3. SIGNIFICANT ACCOUNTS POLICIES

The financial statements are prepared under the historical cost convention, except for financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of Rules Governing the Listing of Securities (“the Listing Rules”) on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

#### (a) Basis of consolidation

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

The results of controlled 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.

The investment in unconsolidated subsidiary is stated at the lower of carrying amount and fair value.

All significant inter-company transactions, balances and unrealised gains on transactions within the Group are eliminated on consolidation.

#### (b) Goodwill

Goodwill arising on an acquisition 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.

Goodwill arising on the acquisition of subsidiary is presented separately in the balance sheet. Goodwill is carried at cost less any accumulated impairment losses.

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.

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

#### (c) Revenue recognition

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental/Royalty income is recognised on a time proportion basis in accordance with the terms and condition of the tenancy/royalty agreement.

Dividend income is recognised when the shareholders’ right to receive payment has been established.

**(d) Impairment of assets excluding 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. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation increase.

**(e) Taxation**

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative 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.

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

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

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

**(f) Property, plant and equipment**

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

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

Leasehold improvements	10% – 50% or over the remaining unexpired terms of the leases whichever is shorter
Furniture, fixtures and equipment	12½% – 33⅓%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Company.

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

**(g) Subsidiaries**

A subsidiary is a company controlled by the Company. A subsidiary is considered to be controlled if the Company has the power directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision for impairment loss, if necessary. The results of subsidiaries are accounted for by the Company to the extent of dividends received and receivable during the year.

**(h) Associates**

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**(i) Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are charged to income statement on a straight-line basis over the relevant lease terms.

**(j) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated cost of completion and estimated selling expenses.

**(k) Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

The Group's financial assets are classified into financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. The accounting policies adopted in respect of each category of financial assets are set out below.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the year in which they arise.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, prepayments, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified accounting to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Other financial liabilities*

Other financial liabilities including trade and other payables, accruals and deposit received and short term loan are subsequently measured at amortised cost, using the effective interest rate method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when, and only when, they are extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

**(l) 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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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 translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

**(m) Related party**

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

**(n) Provision and contingent liabilities**

A provision is recognised when there is a present obligation, legal or constructive, as a result of past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(o) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(p) **Employee benefits**

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement benefits costs*

Payments to the defined contribution retirement plan are charged as expenses as they fall due.

(iii) *Share-based payment expenses*

The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the income statement on a straight-line basis over the vesting period, with a corresponding increase in equity (Share-based compensation reserve).

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity (Share-based compensation reserve) in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction cost, are credited to share capital and share premium accounts when the share options are exercised. When the share options are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to retained profits.

**4. FINANCIAL RISK MANAGEMENT**

Exposure to credit, liquidity, interest rate and foreign exchange risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) **Credit risk**

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. It has policies in place and the exposure to these credit risks are monitored on an ongoing basis.

(b) **Liquidity risk**

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

(c) **Interest rate risk**

The Group's exposure to changes in interest rate relates primarily to the Group's cash and cash equivalents, bank deposits and short term loan. The Group does not use financial derivations to hedge against the interest rate risk. The Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

(d) **Foreign exchange risk**

The Group mainly operates in Hong Kong and the People's Republic of China (the "PRC") with most of the transactions settled in Hong Kong dollars and Renminbi ("RMB"). The Group did not have significant exposure to foreign exchange risk. The Group did not have a foreign currency hedging policy as at the balance sheet date. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.



## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Trade receivables

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivables are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade receivables are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivables and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect the Group's results of operations.

### (b) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

### (c) Inventories

Inventories are measured at lower of cost and net realisable value. The Group reviews the carrying amount of inventories at each balance sheet date, and makes allowance for inventory items identified, if any, to be carried at lower recoverable value through estimation of the expected selling prices under the current market conditions.

## 6. TURNOVER

	2006 HK\$'000	2005 HK\$'000
Continuing operations		
Apparel trading	86,887	90,948
Sales of other investments	–	60,991
Sales of held-for-trading investments	5,004	–
	<u>91,891</u>	<u>151,939</u>
Discontinued operations ( <i>Note 15</i> )		
Provision of container depot services and logistics management services	–	482
Provision of freight forwarding and vessel operating common carrier services	–	1,531
	<u>–</u>	<u>2,013</u>
	<u>91,891</u>	<u>153,952</u>

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

**Business segments**

The Group is currently organised its operations into the following business segments:

- (a) apparel trading
- (b) securities trading
- (c) strategic investments and others

An analysis of the Group's turnover, contribution to loss from operations for the years ended 31 March 2006 and 2005 and certain asset, liability and expenditure information regarding business segments is as follows:

	Continuing operations				Discontinued operations		Consolidated HK\$'000
	Apparel trading HK\$'000	Securities trading HK\$'000	Strategic investments and others HK\$'000	Sub-total HK\$'000	Operation of container depots and logistics management services HK\$'000	Freight forwarding and vessel operating common carrier services HK\$'000	
<b>For the year ended 31 March 2006</b>							
Turnover	<u>86,887</u>	<u>5,004</u>	<u>-</u>	<u>91,891</u>	<u>-</u>	<u>-</u>	<u>91,891</u>
Segment results	<u>(11,735)</u>	<u>189</u>	<u>-</u>	<u>(11,546)</u>	<u>-</u>	<u>-</u>	<u>(11,546)</u>
Interest income				38			38
Group overheads				(5,528)			(5,528)
Write back for loan receivables	-	-	211	211	-	-	211
Impairment loss of goodwill arising on acquisition of subsidiaries	(6,433)	-	-	(6,433)	-	-	(6,433)
Loss from operations				(23,258)			(23,258)
Gain on disposal of subsidiaries	-	-	2,400	2,400	-	-	2,400
Finance costs				(1,929)			(1,929)
Loss before taxation				(22,787)			(22,787)
Taxation				-			-
Loss from continuing operations				<u>(22,787)</u>			
Loss for the year							<u>(22,787)</u>

	Continuing operations			Discontinued operations		Consolidated HK\$'000
	Apparel trading HK\$'000	Securities trading HK\$'000	Strategic investments and others HK\$'000	Operation of container depots and logistics management services HK\$'000	Freight forwarding and vessel operating common carrier services HK\$'000	
<b>As at 31 March 2006</b>						
<b>ASSETS</b>						
Segment assets	68,820	3,610	-	-	-	72,430
Interests in associates	-	-	-	-	-	-
Unallocated corporate assets						920
Consolidated total assets						<u>73,350</u>
<b>LIABILITIES</b>						
Segment liabilities	15,596	-	-	-	-	15,596
Unallocated corporate liabilities						13,835
Consolidated total liabilities						<u>29,431</u>
<b>OTHER INFORMATION</b>						
Capital additions	2,751	96	-	-	-	2,847
Impairment loss of goodwill arising on acquisition of subsidiaries	6,433	-	-	-	-	6,433
Depreciation	<u>1,679</u>	<u>17</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,696</u>

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

	Continuing operations			Discontinued operations			Consolidated HK\$'000
	Apparel trading HK\$'000	Securities trading HK\$'000	Strategic investments and others HK\$'000	Sub-total HK\$'000	Operation of container depots and logistics management services HK\$'000	Freight forwarding and vessel operating common carrier services HK\$'000	
<b>For the year ended 31 March 2005 (Restated)</b>							
Turnover	<u>90,948</u>	<u>60,991</u>	<u>-</u>	<u>151,939</u>	<u>482</u>	<u>1,531</u>	<u>153,952</u>
Segment results	<u>(9,667)</u>	<u>26</u>	<u>-</u>	<u>(9,641)</u>	<u>88</u>	<u>(228)</u>	<u>(9,781)</u>
Interest income				81			81
Group overheads				(2,726)			(2,726)
Provision for loan receivables	-	-	-	(21)	-	-	(21)
Amortisation of goodwill arising on acquisition of subsidiaries	(1,843)	-	-	(1,843)	-	-	(1,843)
Loss from operations				(14,150)			(14,290)
Gain/(Loss) on disposal of subsidiaries attributable to discontinued operations	-	-	-	-	22,063	(489)	21,574
Finance costs			(1,242)	(1,242)			(1,242)
Share of results of associates	-	-	14	14	-	-	14
Amortisation of goodwill arising on acquisition of associates	-	-	(192)	(192)	-	-	(192)
Impairment loss of goodwill arising on acquisition of associates	-	-	(1,231)	(1,231)	-	-	(1,231)
(Loss)/Profit before taxation				(16,801)			4,633
Taxation				-			-
Loss from continuing operations				<u>(16,801)</u>			
Profit for the year							<u>4,633</u>

	Continuing operations			Discontinued operations		Consolidated HK\$'000
	Apparel trading HK\$'000	Securities trading HK\$'000	Strategic investments and others HK\$'000	Operation of container depots and logistics management services HK\$'000	Freight forwarding and vessel operating common carrier services HK\$'000	
<b>As at 31 March 2005</b>						
<b>ASSETS</b>						
Segment assets	81,416	1,149	1,159	–	–	83,724
Interests in associates	–	–	–	–	–	–
Unallocated corporate assets						2,346
Consolidated total assets						<u>86,070</u>
<b>LIABILITIES</b>						
Segment liabilities	11,976	–	1,159	–	–	13,135
Unallocated corporate liabilities						22,730
Consolidated total liabilities						<u>35,865</u>
<b>OTHER INFORMATION</b>						
Capital additions	1,187	–	–	–	101	1,288
Amortisation of goodwill arising on acquisition of subsidiaries	1,843	–	–	–	–	1,843
Amortisation of goodwill arising on acquisition of associates	–	–	192	–	–	192
Depreciation	989	15	–	49	13	1,066
Impairment loss of goodwill arising on acquisition of associates	–	–	1,231	–	–	1,231
Write down of inventories to net realisable value	<u>9,186</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>9,186</u>

**Geographical segments**

The Group's operations are principally located in the PRC and Hong Kong.

An analysis of the Group's turnover and contribution to loss from operations by geographical market, irrespective of the origin of the goods/services is as follows:

	Turnover by geographical market		Contribution to loss from operations	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000 (Restated)
The PRC	27,819	28,406	2,638	4,745
Hong Kong	64,072	125,546	(14,184)	(14,526)
	<u>91,891</u>	<u>153,952</u>	(11,546)	(9,781)
Interest income			38	81
Group overheads			(5,528)	(2,726)
Write back/(Provision) for loan receivables			211	(21)
Amortisation of goodwill arising on acquisition of subsidiaries			–	(1,843)
Impairment loss of goodwill arising on acquisition of subsidiaries			(6,433)	–
Loss from operations			<u>(23,258)</u>	<u>(14,290)</u>

An analysis of the carrying amount of segment assets and additions to property, plant and equipment, by geographical areas is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
The PRC	9,932	28,968	1,180	915
Hong Kong	63,418	57,102	1,667	373
	<u>73,350</u>	<u>86,070</u>	<u>2,847</u>	<u>1,288</u>

**8. OTHER REVENUE**

	2006 HK\$'000	2005 HK\$'000 (Restated)
Dividend income from other investments	–	14
Dividend from held-for-trading investments	16	–
Interest income	38	81
Unrealised gain on held-for-trading investments	13	–
Rental income	–	747
Royalty income	205	1,248
Sundry income	394	358
Write back of amounts due to other payables	–	2,721
	<u>666</u>	<u>5,169</u>

## 9. OTHER OPERATING EXPENSES

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Provision for bad and doubtful debts, net	84	215
Unrealised loss on other investments, net	–	30
	<u>84</u>	<u>245</u>

## 10. LOSS FROM OPERATIONS

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

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Cost of sales		
Apparel trading	41,814	39,451
Write down of inventories to net realisable value	–	9,186
	<u>41,814</u>	<u>48,637</u>
Securities trading	4,844	60,949
	<u>46,658</u>	<u>109,586</u>
Auditors' remuneration		
Current year	450	462
Under/(Over) provision for prior years	6	(13)
	<u>456</u>	<u>449</u>
Depreciation	1,696	1,066
Loss on disposal of property, plant and equipment	47	174
Operating lease rentals in respect of land and buildings	7,066	10,510
Outgoings in respect of rental income	–	242
Royalty expenses	3,377	4,364
Staff salaries and other benefits	18,169	17,125
Staff retirement benefits scheme contributions, net of forfeited contributions of HK\$Nil (2005: HK\$11,000)	1,603	705
Provision for long service payments	–	44
	<u>19,772</u>	<u>17,874</u>
Total staff costs including directors' emoluments	19,772	17,874
Gain on disposal of other investments, net	–	(42)
Unrealised gain on held-for-trading investments	(13)	–
Write back of provision for slow-moving inventories	(5,195)	–
	<u>(5,195)</u>	<u>–</u>

## 11. FINANCE COSTS

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Interests on short term loan wholly repayable within 5 years	<u>1,929</u>	<u>1,242</u>

## 12. DIRECTORS' EMOLUMENTS

The remuneration of every director of the Company for the years ended 31 March 2006 and 31 March 2005, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is analysed as follows:

	Directors' fee		Salaries and other allowances		Share-based payment		Retirement benefits scheme contribution		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<b>Executive directors</b>										
Wong Ching Ping, Alex	60	60	558	555	-	-	-	-	618	615
Lim Direk	60	60	-	-	-	-	-	-	60	60
<b>Independent non-executive directors</b>										
Chu Kar Wing	60	60	-	-	-	-	-	-	60	60
Chow King Wai	60	60	-	-	-	-	-	-	60	60
Tang Yiu Wing	60	32	-	-	-	-	-	-	60	32
<b>Non-executive director</b>										
Wan Choi Ha (resigned on 14 March, 2006)	57	60	-	-	-	-	-	-	57	60
	<u>357</u>	<u>332</u>	<u>558</u>	<u>555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>915</u>	<u>887</u>

*Notes:*

During the year, no emolument or incentive payments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2005: nil). None of the directors has waived any emoluments during the year.

## 13. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group include one (2005: one) directors, details of whose emoluments are set out in note 12 above. The total amount of the emoluments of the remaining four individual (2005: four individuals) during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other allowances	2,053	2,001
Retirement benefits scheme contributions	45	43
Share-based payment	-	-
	<u>2,098</u>	<u>2,044</u>

The emoluments of the remaining four (2005: four) individuals fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
Nil – HK\$1,000,000	<u>4</u>	<u>4</u>

During the year, no emolument or incentive payments were paid or payable to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2005: nil).



## 14. TAXATION

The taxation charged to the income statement represents:

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Current – Hong Kong Profits Tax	–	–
Deferred taxation	–	–
	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries have no assessable profits for the year (2005: nil).

Pursuant to a notice date 7 March 2005 issued by Shanghai Local Tax Bureau Xu Hui Branch, 上海歐裝貿易有限公司 (“上海歐裝”), a subsidiary of the Group, is exempted from PRC enterprise income tax (“EIT”) for the period from 1 May 2004 to 31 December 2006. No provision for EIT has been made for other subsidiaries operating in the PRC as they did not generate any assessable profits during the year.

The taxation for the year can be reconciled to the (loss)/profit before taxation per the consolidated income statement as follows:

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i> (Restated)
(Loss)/profit from continuing and discontinued operations before taxation	<u>(22,787)</u>	<u>4,633</u>
Taxation (credit)/charge at domestic income tax rate of 17.5% (2005: 17.5%)	(3,988)	811
Tax effect of estimated tax losses not recognised	3,308	2,056
Tax effect of income not taxable for tax purpose	(9,640)	(4,594)
Tax effect of expenses not deductible for tax purpose	10,320	1,664
Tax effect of deferred tax asset not recognised	–	197
Tax effect of utilisation of tax losses previously not recognised	–	(134)
Taxation	<u>–</u>	<u>–</u>

## 15. DISCONTINUED OPERATIONS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Gain on disposal of container depots and logistics management services operations	–	22,063
Loss on disposal of freight forwarding and vessel operating common carrier services operations	–	(489)
Gain on disposal of subsidiaries attributable to discontinued operations	–	21,574
Profit from container depots and logistics management services operations	–	88
Loss from freight forwarding and vessel operating common carrier services operations	–	(228)
Loss from discontinued operations before minority interest for the year	–	(140)
Profit from discontinued operations	–	21,434

## (a) Container depots and logistics management services operations

On 22 March 2004, the Group entered into a sale and purchase agreement to dispose of its entire 60% equity interest in United Asia Terminal Holdings Limited (“United Asia”) and the amount due from United Asia to the Group at a total consideration of HK\$33,000,000. United Asia and its subsidiaries (“United Asia Group”) were principally engaged in the provision of container depots and logistics management services. Upon the completion of the disposal on 6 April 2004, the Group discontinued its container depots and logistics management services operations. Gain on disposal of the aforesaid discontinued operations of approximately HK\$22,063,000 has been credited to the income statement. No income tax expense or credit arose from the disposal.

The turnover, other revenue, results, cash flows, total assets and total liabilities of the container depots and logistics management services operations are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	–	482
Direct operating costs	–	(314)
Gross profit	–	168
Operating expenses	–	(80)
Profit from ordinary activities before taxation	–	88
Taxation	–	–
Profit before minority interests	–	88
Minority interests	–	(35)
Net profit for the year	<u>–</u>	<u>53</u>
Net cash used in operating activities	–	(377)
Net cash used in investing activities	–	–
Net cash from financing activities	–	–
Effect on foreign exchange rate changes	–	–
Total net cash outflow	<u>–</u>	<u>(377)</u>
Total assets	–	68,479
Total liabilities	–	(93,228)
Minority interests	–	5,648
Net liabilities	<u>–</u>	<u>(19,101)</u>

**(b) Freight forwarding and vessel operating common carrier services operations**

On 30 March 2004, the Group entered into a sale and purchase agreement to dispose of its entire 100% equity interest in Jungjin Logistics Development Limited (“Jungjin Logistics”) and the amount due from Jungjin Logistics to the Group at a total consideration of HK\$3,155,000. Jungjin Logistics and its subsidiaries (“Jungjin Logistics Group”) were principally engaged in the provision of freight forwarding and vessel operating common carrier services. Upon the completion of the disposal on 22 April 2004, the Group discontinued its freight forwarding and vessel operating common carrier services operations. Loss on disposal of the aforesaid discontinued operations of approximately HK\$489,000 has been charged to the income statement. No income tax expense or credit arose from the disposal.

The turnover, other revenue, results, cash flows, total assets and total liabilities of the freight forwarding and vessel operating common carrier services operations are as follows:

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Turnover	–	1,531
Direct operating costs	–	(1,302)
Gross profit	–	229
Operating expenses	–	(457)
Loss from operations	–	(228)
Finance costs	–	–
Interest in an associate written off	–	–
Net loss for the year	<u>–</u>	<u>(228)</u>
Net cash used in operating activities	–	(793)
Net cash used in investing activities	–	(101)
Total net cash outflow	<u>–</u>	<u>(894)</u>
Total assets	–	7,534
Total liabilities	–	(30,160)
Net liabilities	<u>–</u>	<u>(22,626)</u>

#### 16. (LOSS)/EARNINGS PER SHARE

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

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
(Loss)/Earnings for the purposes of basis (loss)/earnings per share	<u>(22,787)</u>	<u>4,598</u>
	<b>Number of shares (approximately)</b>	
	<b>2006</b>	<b>2005</b>
Weighted average number of shares for the purpose of basic and diluted (loss)/earnings per share	<u>843,080,000</u>	<u>385,650,000</u>

Diluted (loss)/earnings per share is not presented as there were no dilutive potential shares in issue during the years ended 31 March 2006 and 2005.

## 17. PROPERTY, PLANT AND EQUIPMENT

## The Group

	Leasehold properties <i>HK\$'000</i>	Leasehold improvements, furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles, tractors trailers and chassis <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>					
As at 1 April 2004	51,000	6,090	11,795	17,071	85,956
Additions	–	1,288	–	–	1,288
Disposal of subsidiaries	(51,000)	(4,028)	(11,795)	(17,071)	(83,894)
Disposal	–	(567)	–	–	(567)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 March 2005 and 1 April 2005	–	2,783	–	–	2,783
Additions	–	2,847	–	–	2,847
Disposal	–	(332)	–	–	(332)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>As at 31 March 2006</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	–	5,298	–	–	5,298
<b>Accumulated depreciation</b>					
As at 1 April 2004	607	3,470	8,793	8,752	21,622
Charge for the year	14	1,018	16	18	1,066
Disposal of subsidiaries	(621)	(2,742)	(8,809)	(8,770)	(20,942)
Disposals	–	(393)	–	–	(393)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 March 2005 and 1 April 2005	–	1,353	–	–	1,353
Charge for the year	–	1,696	–	–	1,696
Eliminated on disposal	–	(285)	–	–	(285)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>As at 31 March 2006</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	–	2,764	–	–	2,764
<b>Net book value</b>					
<b>As at 31 March 2006</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	–	2,534	–	–	2,534
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 March 2005	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	–	1,430	–	–	1,430

## 18. GOODWILL

	<b>The Group</b> <i>HK\$'000</i>
<b>Cost</b>	
As at 1 April 2004	9,217
Disposal of subsidiaries	(2)
	<u>9,215</u>
As at 1 April 2005 and 31 March 2006	9,215
Elimination of aggregate amortisation upon application of HKFRS 3	(2,782)
	<u>6,433</u>
<b>As at 31 March 2006</b>	<u>6,433</u>
<b>Aggregate amortisation and impairment losses</b>	
As at 1 April 2004	941
Amount amortised for the year	1,843
Disposal of subsidiaries	(2)
	<u>2,782</u>
As at 31 March 2005 and 1 April 2005	2,782
Elimination of aggregate amortisation upon application of HKFRS 3	(2,782)
Impairment loss	6,433
	<u>6,433</u>
<b>As at 31 March 2006</b>	<u>6,433</u>
<b>Net book value</b>	
<b>As at 31 March 2006</b>	<u><u>–</u></u>
As at 31 March 2005	<u><u>6,433</u></u>

The goodwill arose on the acquisition of Hamlet Profits Limited (“Hamlet Profits”) and its subsidiaries, which are principally engaged in apparel trading. As at 31 March 2006, the Group fully impaired the goodwill as the directors assessed the carrying value of the goodwill based on results projections to determine the estimated goodwill recoverable amount and are of the opinion that business prospect of Hamlet Profits and its subsidiaries is unfavourable.

## 19. INTERESTS IN SUBSIDIARIES AND AMOUNT DUE TO A SUBSIDIARY

	<b>The Company</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	–	833,671
Amounts due from subsidiaries	109,055	84,867
	<u>109,055</u>	<u>918,538</u>
Less: Impairment losses	(109,055)	(873,748)
	<u>–</u>	<u>44,790</u>
Amount due to a subsidiary	<u>–</u>	<u>(2,500)</u>

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, no demand for repayment will be made by the Company or by the subsidiary in the next twelve months. Accordingly, the amounts are shown as non-current.

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

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group	Principal activities
<b>Interests held directly:</b>				
Value Place Investments Limited	British Virgin Islands/Hong Kong	US\$1	100%	Investment holding
<b>Interests held indirectly:</b>				
Aceluck Nominees Limited	Hong Kong	HK\$2	100%	Investment holding
Acute Investments Limited	British Virgin Islands/Hong Kong	US\$1	100%	Investment holding
Capital Asia Properties Limited	Hong Kong	HK\$2	100%	Investment holding
Capital Asia Property Management (China) Limited	Hong Kong	HK\$10,000	100%	Investment holding
Century Lead Limited	Hong Kong	HK\$2	100%	Apparel trading
Euro Fashion Trading Company Limited ("Euro Fashion")	Hong Kong	HK\$1	100%	Apparel trading
French Trade Marketing Limited ("French Trade")	Hong Kong	HK\$10,000	100%	Apparel trading
Full Ahead Limited ("Full Ahead")	British Virgin Islands/Hong Kong	US\$1	100%	Investment holding
Gainwell Corporation Limited	Hong Kong	HK\$2	100%	Apparel trading
Gold Stock Resources Limited	Samoa/the PRC	US\$1	100%	Apparel trading
Gold Venture Corporation Limited	Hong Kong	HK\$2	100%	Securities trading and management services
Goldgain Services Limited	Samoa/the PRC	US\$1	100%	Apparel trading
Hamlet Profits	British Virgin Islands/Hong Kong	US\$1	100%	Investment holding
Reward Well Limited	British Virgin Islands/Hong Kong	US\$1	100%	Apparel trading
Shrewd Skill Limited	British Virgin Islands/Hong Kong	US\$1	100%	Investment holding
Sinostate Enterprises China) Limited	Hong Kong	HK\$2	100%	Investment holding
Sinostate Properties Limited	Hong Kong	HK\$2	100%	Investment holding
Super Target Limited	Hong Kong	HK\$2	100%	Apparel trading
廣州歐裝貿易有限公司	The PRC	RMB500,000	100%	Apparel trading
上海歐裝	The PRC	RMB500,000	100%	Apparel trading

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

**20. INTEREST IN AN UNCONSOLIDATED SUBSIDIARY AND AMOUNT DUE TO AN UNCONSOLIDATED SUBSIDIARY**

	<b>The Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest stated at carrying value	–	3,519
Less: Impairment losses	–	(2,360)
	<u>–</u>	<u>1,159</u>
Amount due to an unconsolidated subsidiary	<u>–</u>	<u>(1,159)</u>

In the prior year, the Group acquired 57% equity interest in Shanghai Fuda Jewellery Company Limited (“Fuda”) through the acquisition of Hamlet Profits. The Group has been unable to exercise its rights as a major shareholder of Fuda since the date of acquisition. Accordingly, the Group has been unable either to control the assets and operations or to exercise significant influence over the financial and operating policy decisions of Fuda. In view of the above, the financial statements of Fuda have not been consolidated.

The directors, to their best knowledge, are satisfied that the Group has no material obligations or commitments in respect of Fuda that require either adjustments to or disclosure in the financial statements.

The Group has not been able to obtain the financial information since the date of acquisition of Fuda.

The business licence of Fuda was revoked by the State Administrative of Industry and Commerce in 2005 and the directors considered that the Group’s interest in Fuda had ceased. Accordingly, the Group’s interest in Fuda was written off against the amount due to Fuda by the same amount of approximately HK\$1,159,000. Consequently, there was no effect on the results for the current year.

**21. INTERESTS IN ASSOCIATES**

	<b>The Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net liabilities	(212)	(762)
Goodwill	212	212
Amount due from an associate	–	550
	<u>–</u>	<u>–</u>

The amount due from an associate is unsecured, interest free and has no fixed terms of repayment. In the opinion of the directors, no demand for repayment will be made by the Group in the next twelve months. Accordingly, the amount is shown as non-current.



Particulars of the associate held by the Group as at 31 March 2006 are as follows:

Name	Place of incorporation or registration operations	Business structure	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group Indirect	Principal activities
Global Institute, Inc. ("Global Institute")	British Virgin Islands/ Hong Kong	Corporate	US\$50,000	49%	Investment holding (which together with its wholly-owned subsidiary, is engaged in the business of co-ordinating academic training programs)

*Note:* Under the equity method of accounting, the Group's shares of losses of its associate is discontinued when the carrying amount of the interest in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate. As at 31 March 2006 and 2005, the Group's share of certain associate's losses exceeded its carrying amount of the interests in an associate. Accordingly, the losses of the associate were not equity accounted for.

The movements of goodwill arising on acquisition of the associate are as follows:

	The Group	
	2006 HK\$'000	2005 HK\$'000
<b>Cost</b>		
As at 1 April and 31 March	53,725	53,725
<b>Aggregate amortisation and impairment losses</b>		
As at 1 April	53,513	52,090
Amount amortised for the year	–	192
Impairment loss for the year	–	1,231
As at 31 March	53,513	53,513
<b>Net book value</b>		
As at 31 March	<u>212</u>	<u>212</u>

Summarised financial information, as extracted from the audited financial statements of Global Institute is as follows:

	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Audited consolidated income statement information for the year ended 31 March		
Turnover	<u>251</u>	<u>973</u>
(Loss)/Profit from ordinary activities before taxation	(340)	27
Taxation	<u>-</u>	<u>2</u>
(Loss)/Profit for the year	<u>(340)</u>	<u>29</u>
Audited consolidated balance sheet information as at 31 March		
Non-current assets	111	13
Current assets	169	415
Current liabilities	<u>(946)</u>	<u>(861)</u>
Net liabilities	<u>(666)</u>	<u>(433)</u>

## 22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>The Group</b>	
	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Listed equity securities in Hong Kong	<u>2,807</u>	<u>-</u>

Following the adoption of HKAS 39 in 2005, certain investment in securities was redesignated as available-for-sale financial assets on 1 April 2005. There was no such redesignation in 2004 as retrospective application of HKAS 39 is not permitted.

## 23. INVENTORIES

	<b>The Group</b>	
	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Merchandise goods for sales		
Apparel	<u>38,073</u>	<u>40,728</u>

Inventories of approximately HK\$12,922,000 (2005: HK\$13,002,000) included in the above are carried at net realisable value.

**24. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

The Group allows a credit period normally ranging from cash on delivery to 120 days to its trade customers.

As at 31 March 2006, the balance of trade and other receivables, deposits and prepayments included trade receivables of approximately HK\$8,278,000 (2005: HK\$6,088,000). An aged analysis of trade receivables, net of provision for bad and doubtful debts, is as follows:

	<b>The Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	7,824	3,603
61 – 90 days	58	694
91 – 180 days	137	1,073
181 – 365 days	116	718
Over 1 year	143	–
	<u>8,278</u>	<u>6,088</u>

**25. OTHER INVESTMENTS**

	<b>The Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity securities in Hong Kong	<u>–</u>	<u>1,134</u>

Upon the application of HKAS 39 on 1 April 2005, other investments were reclassified as held-for-trading investments (see note 26 for details).

**26. HELD-FOR-TRADING INVESTMENTS**

	<b>The Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity securities in Hong Kong	<u>44</u>	<u>–</u>

Following the adoption of HKAS 39 in 2005, certain other investments were redesignated as held-for-trading investments on 1 April 2005. There was no such redesignation for the year ended 31 March 2005 as retrospective application of HKAS 39 is not permitted.

**27. BANK AND CASH BALANCES**

As at 31 March 2006, the bank and cash balances of the Group denominated in RMB amounted to approximately HK\$3,482,000 (2005: HK\$2,128,000). The remittance of these funds out of the PRC is subject to the foreign exchange control restriction imposed by the PRC government.

**28. TRADE AND OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED**

As at 31 March 2006, the balance of trade and other payables, accruals and deposits received included trade payables of approximately HK\$2,791,000 (2005: HK\$4,115,000). An aged analysis of trade payables is as follows:

	<b>The Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	1,505	3,439
61 – 90 days	38	578
91 – 180 days	3	98
181 – 365 days	1	–
Over 1 year	1,244	–
	<u>2,791</u>	<u>4,115</u>

**29. SHORT TERM LOAN**

	<b>The Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured loan	<u>9,443</u>	<u>16,434</u>

As at 31 March 2006, the short term loan was extended by an independent third party which is interest bearing at 1% per annum over bank's best lending rate and due on 30 September 2006. The loan is secured by a pledge of all the issued share capital in and the shareholder loan to Full Ahead, a wholly-owned subsidiary of the Company. Full Ahead is the holding company of the subsidiaries which are mainly engaged in apparel trading.

**30. DEFERRED TAXATION**

(a)

	<b>The Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 April	–	3,304
Disposal of subsidiaries	–	(3,304)
	<u>–</u>	<u>–</u>
As at 31 March	<u>–</u>	<u>–</u>

(b)

As at the balance sheet date, the following unused tax losses and deductible temporary differences have not been recognised as deferred tax assets:

	<b>The Group</b>		<b>The Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unused tax losses	46,400	67,467	8,068	4,713
Deductible temporary differences	5,023	5,148	–	–
	<u>51,423</u>	<u>72,615</u>	<u>8,068</u>	<u>4,713</u>

Deferred tax assets have not recognised in respect of the above items because it is not probable that future taxable profits will be available against which the Group and the Company can utilise the benefits. Included in the above unused tax losses are losses of approximately HK\$576,000 (2005: HK\$870,000) that will expire after five years from the year of assessment they relate to. Other unused tax losses may be carried forward indefinitely.

As at 31 March 2006, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain Group's subsidiaries and associate (2005: Nil).

### 31. PROVISION FOR LONG SERVICE PAYMENTS

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Group's retirement plan that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

The amount recognised in respect of the probable future long service payments expected to be made is as follows:

	<b>The Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 April	959	959
Provision made during the year	–	59
Provision utilised during the year	–	(44)
Reversal of unutilised provision	–	(15)
	<u>959</u>	<u>959</u>
As at 31 March	<u>959</u>	<u>959</u>

### 32. SHARE CAPITAL

	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised		
<b>As at 31 March 2005 and 2006: Ordinary shares of HK\$0.001 each</b>	<u>300,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
As at 31 March 2004 and as at 1 April 2004:		
Ordinary shares of HK\$0.001 each	364,308,262	364
Placing of new shares	72,800,000	73
	<u>437,108,262</u>	<u>437</u>
As at 31 March 2005: Ordinary shares of HK\$0.001 each	437,108,262	437
Open offer	1,311,324,786	1,311
	<u>1,748,433,048</u>	<u>1,748</u>
<b>As at 31 March 2006: Ordinary shares of HK\$0.001 each</b>	<u>1,748,433,048</u>	<u>1,748</u>

On 25 November 2005, 1,311,324,786 ordinary shares ("Offer Shares") of HK\$0.001 each were issued at HK\$0.023 per share through an open offer ("Open Offer") to the then shareholders of the Company. The subscription price of the Offer Shares represents a discount of approximately 77% to the closing price of the share of the Company on 17 October 2005 and a discount of approximately 76.53% to the average of the closing price of the shares of the Company for the ten trading days up to and including 17 October 2005. The Offer Shares rank pari passu in all respects with the then existing shares of the Company. The premium arose from the issue of the Offer Shares of approximately HK\$28,849,000, net of share issuing expenses of approximately HK\$805,000, was credited to the share premium account (Note 34). The Company used the net proceeds from the Open Offer of approximately HK\$29,355,000 for the Group's general working capital and investment purposes.

**33. SHARE OPTION SCHEME**

Pursuant to the share option scheme adopted by the shareholders of the Company on 30 August 2002 (the “Share Option Scheme”), the board of directors (the “Board”) of the Company may for a consideration of HK\$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board at its absolute discretion, but in any event shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange’s daily quotation sheet on the date on which the relevant option is granted.

The maximum number of share in respect of which options may be granted under the Share Option Scheme and any other schemes of the Company must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

The Share Option Scheme became effective for a period of ten years commenced on 26 September 2002.

No option under the Share Option Scheme had been granted to any person since its adoption.

## 34. RESERVES

## The Group

	Attributable to equity holders of the Company											
	Share premium	Other property revaluation reserve	Investment revaluation reserve	Translation reserve	Negative goodwill reserve	Goodwill reserve	Capital redemption reserve	Reserve funds	Accumulated losses	Total	Minority interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 April 2004	674,895	21,163	-	992	27,314	(1,843)	1,190	-	(664,604)	59,107	(5,683)	53,424
Reserves realised upon disposal of subsidiaries attributable to discontinued operations	-	(21,163)	-	(983)	(328)	1,843	-	-	-	(20,631)	-	(20,631)
Premium arising from placing of new shares, net of expenses	6,694	-	-	-	-	-	-	-	-	6,694	-	6,694
Opening adjustment in respect of adoption of HKFRS 3	-	-	-	-	(26,986)	-	-	-	26,986	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	4,598	4,598	35	4,633
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	5,648	5,648
Transfer	-	-	-	-	-	-	-	135	(135)	-	-	-
As at 31 March 2005 and as at 1 April 2005	681,589	-	-	9	-	-	1,190	135	(633,155)	49,768	-	49,768
Premium arising from open offer, net of expenses (Note 32)	28,044	-	-	-	-	-	-	-	-	28,044	-	28,044
Reserve realised upon disposal of subsidiaries	-	-	-	(9)	-	-	-	-	-	(9)	-	(9)
Change of fair value for available-for-sale financial assets	-	-	(12,845)	-	-	-	-	-	-	(12,845)	-	(12,845)
Loss for the year	-	-	-	-	-	-	-	-	(22,787)	(22,787)	-	(22,787)
As at 31 March 2006	709,633	-	(12,845)	-	-	-	1,190	135	(655,942)	42,171	-	42,171
Attributable to:												
The Company and its subsidiaries	681,589	-	-	-	-	-	1,190	135	(632,744)	50,170	-	50,170
Associates	-	-	-	9	-	-	-	-	(411)	(402)	-	(402)
As at 31 March 2005	681,589	-	-	9	-	-	1,190	135	(633,155)	49,768	-	49,768
Attributable to:												
The Company and its subsidiaries	709,633	-	(12,845)	-	-	-	1,190	135	(655,942)	42,171	-	42,171
Associates	-	-	-	-	-	-	-	-	-	-	-	-
As at 31 March 2006	709,633	-	(12,845)	-	-	-	1,190	135	(655,942)	42,171	-	42,171

Note: Pursuant to the relevant laws and regulations in the PRC, a portion of the profit of the Group's subsidiary in the PRC has been transferred to reserve funds which are restricted as to use.

**The Company**

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2004	674,895	129,298	1,190	(774,067)	31,316
Premium arising from placing of new shares, net of expenses ( <i>Note 32</i> )	6,694	–	–	–	6,694
Profit for the year	–	–	–	3,278	3,278
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
As at 31 March 2005 and as at 1 April 2005	681,589	129,298	1,190	(770,789)	41,288
Premium arising from open offer, net of expenses ( <i>Note 32</i> )	28,044	–	–	–	28,044
Dissolution of subsidiaries	–	(129,298)	–	129,298	–
Loss for the year	–	–	–	(72,386)	(72,386)
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
<b>As at 31 March 2006</b>	<b><u>709,633</u></b>	<b><u>–</u></b>	<b><u>1,190</u></b>	<b><u>(713,877)</u></b>	<b><u>(3,054)</u></b>

The contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of Oriental Union Strategies Limited and the value of net assets of the underlying subsidiaries acquired at 31 August 1994, net of HK\$100,000 applied in paying up in full at par the 1,000,000 nil paid shares.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

As at 31 March 2006 and 2005, the Company had no reserves available for distribution to shareholders.



## 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Disposal of subsidiaries attributable to discontinued operations

As explained in Note 15, on 6 April 2004 and 22 April 2004, the Group discontinued its container depots and logistics management services operations and its freight forwarding and vessel operating common carrier services operations at the time of disposal of United Asia Group and Jungjin Logistics Group, respectively. The net liabilities of these subsidiaries disposal of during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Net liabilities disposed of:		
Property, plant and equipment	–	62,952
Trade and other receivables, deposits and prepayments	–	11,208
Bank and cash balances	–	1,853
Trade and other payables, accruals and deposits received	–	(5,711)
Short term loan	–	(1,081)
Amounts due to the Group	–	(76,939)
Amounts due to minority shareholders	–	(36,353)
Deferred taxation	–	(3,304)
Minority interests	–	5,648
	–	(41,727)
Other property revaluation reserve realised	–	(21,163)
Translation reserve realised	–	(983)
Negative goodwill reserve realised	–	(328)
Goodwill reserve realised	–	1,843
Assignment of amounts due from subsidiaries	–	76,939
	–	14,581
Gain on disposal of subsidiaries attributable to discontinued operations	–	21,574
Total consideration – satisfied by cash	<u>–</u>	<u>36,155</u>
Net inflow of cash and cash equivalents arising on disposal of subsidiaries attributable to discontinued operations:		
Cash consideration	–	36,155
Cash and bank balances disposed of	–	(1,853)
Net inflow of cash and cash equivalents	<u>–</u>	<u>34,302</u>

The above subsidiaries disposed of during the year ended 31 March 2005 contributed approximately HK\$2,013,000 to the Group's turnover and a loss of approximately HK\$140,000 to the Group's profit from ordinary activities before taxation.

## (b) Disposal of subsidiaries

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Net assets/(liabilities) disposed of:		
Trade and other receivables, deposits and prepayments	644	–
Cash and bank balances	4	–
Trade and other payables, accruals and deposits received	(2,437)	–
Amounts due from the Group	–	1,374
Amounts due to the Group	(701,977)	(111)
	<u>(703,766)</u>	<u>1,263</u>
Amounts due from subsidiaries written off	701,977	111
Amounts due to subsidiaries written back	–	(1,374)
Translation reserve realised	(9)	–
Gain on disposal of subsidiaries	2,400	–
	<u>602</u>	<u>–</u>
Total consideration – satisfied by cash ( <i>Note</i> )		
Net inflow of cash and cash equivalents arising on disposal of subsidiaries		
Cash consideration	602	–
Cash and bank balances disposed of	(4)	–
	<u>598</u>	<u>–</u>
Net inflow of cash and cash equivalents		

The results of the subsidiaries disposed of during the years ended 31 March 2006 and 2005 have no significant impact on the Group's turnover or profit/(loss) from ordinary activities before taxation for the years ended 31 March 2006 and 2005.

*Note:* There was a consideration of approximately HK\$259,000 attributable to the disposal of subsidiaries during the year ended 31 March 2005, however no amount was received by the Group and the said consideration receivable was fully written off.

## 36. PLEDGE OF ASSETS

At 31 March 2006, the following assets were pledged to secure banking facilities and short term loan granted to the Group:

- (a) Bank deposits of the Group of approximately HK\$1,736,000 (2005: approximately HK\$2,725,000);
- (b) All issued share capital of and the shareholder's loan to Full Head, a wholly-owned subsidiary of the Company.

## 37. COMMITMENTS AND CONTINGENT LIABILITIES

## (a) Operating lease commitments

At 31 March 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group	
	2006 HK\$'000	2005 HK\$'000
Within one year	7,038	4,123
In the second to fifth year inclusive	6,247	1,644
	<u>13,285</u>	<u>5,767</u>

The leases are negotiated for terms ranging from 1 to 4 years. The operating lease rentals of certain outlets are leased on the higher of the minimum guaranteed rental and the sales level leased rental, ranging from 10% to 15% on the sales level. The minimum guaranteed rental has been used to arrive at the above commitments.

## (b) Capital commitments

	The Group	
	2006 HK\$'000	2005 HK\$'000
Capital expenditure contracted but not provided for:		
Acquisition of property in Malaysia	105,281	105,281
Additions to plant and equipment	79	-
	<u>105,360</u>	<u>105,281</u>

In the opinion of the directors, no demand for payments of the above amount will be made by the counterparties in the coming year as the counterparties failed to complete the construction work.

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

## (c) Other commitments

As at the balance sheet date, the Group had entered into certain licensing and technical assistance arrangements. The future minimum licensing and technical assistance payments committed by the Group in respect of the arrangements are as follows:

	The Group	
	2006 HK\$'000	2005 HK\$'000
<b>Licensing arrangement</b>		
Within one year	3,610	3,610
In the second to fifth year inclusive	5,170	8,780
	<u>8,780</u>	<u>12,390</u>

The licensing arrangement is contracted for a term up to 31 December 2008. Apart from the guaranteed royalty as disclosed above, if, at any time and during the contractual period, the Group's cumulated net sales are in excess of the sales level bases as referred to in the relevant license agreement, the Group will pay additional royalty to the licensor, at 5% on the cumulated net sales exceeding the sales level base.

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

**(d) Contingent liabilities**

- (i) In 2003, Total Resources Limited (“Total Resources”) claimed against the Company in a High Court action for HK\$1,064,000 being damages for repudiation of a service agreement relating to the provision of company secretary.

A settlement was made between the parties on 4 July 2006, pursuant to which the Company has paid a sum of HK\$930,000 in full and final settlement of the claim of Total Resources.

- (ii) In August 2005, Orient Rise Limited (“Orient Rise”) initiated a legal action against French Trade and Euro Fashion, two wholly-owned subsidiaries of the Group, for a breach of the terms of sublicence causing loss and damages to Orient Rise.

Up to the date of this report, based on the legal advice obtained, the directors believed that there is no ground for Orient Rise to make the claim and therefore, no provision has been made in the financial statements.

**38. RETIREMENT BENEFITS SCHEMES****Hong Kong**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000 and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

**The PRC**

The Group also participates in a defined contribution retirement scheme organised by the government in the PRC. The Group is required to contribute a specified percentage of the payroll of its employees to the retirement scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

**39. RELATED PARTY TRANSACTIONS**

Save as disclosed in the consolidated balance sheet and in Note 21, the Group did not have any significant related party transaction during the year.

**40. POST BALANCE SHEET EVENT**

Subsequent to the financial year end, a special resolution was passed at a special general meeting of the Company held on 26 April 2006 pursuant to which the paid up capital of the Company was reduced from HK\$0.001 per share to HK\$0.00005 per share (“Reduced Share”) by cancellation of HK\$0.00095 of the paid up capital on each issued share (“Capital Reduction”). As a result of the Capital Reduction and based on the number of issued shares of the Company as at 26 April 2006, an amount of approximately HK\$1,661,000 from the share capital account of the Company was cancelled and credited to the contributed surplus account of the Company where it will be utilized in accordance with the bye-laws of the Company and all applicable laws, including to set off the accumulated losses of the Company. Upon the Capital Reduction taking effect, every 20 Reduced Shares were consolidated into one share of HK\$0.001 (“New Share”) each resulting in the total issued share capital of the Company reduced to 87,421,652 New Shares.

**41. COMPARATIVE FIGURES**

Certain comparative figures have been restated or re-classified as a result of adoption of new HKFRSs.

**42. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 14 July 2006.

## 3. INTERIM RESULTS

Set out below are the unaudited consolidated results of the Group for the six months ended 30th September 2006 together with the comparative unaudited figures for the corresponding period in 2005 as extracted from the interim report of the Company for the six months ended 30th September 2006:

**Condensed Consolidated Income Statement**

*For the six months ended 30 September 2006*

		<b>Unaudited six months ended 30 September</b>	
	<i>Notes</i>	<b>2006 HK\$'000</b>	<b>2005 HK\$'000</b>
<b>Turnover</b>	4	36,569	47,780
Cost of sales		(18,539)	(28,477)
Gross profit		18,030	19,303
Other revenue		468	474
Selling and distribution costs		(16,338)	(17,687)
Administrative expenses		(9,556)	(11,328)
Other operating expenses		–	(7)
Provision for loan receivables		–	(100)
Impairment loss of goodwill arising on acquisition of subsidiaries		–	(3,118)
<b>Loss from operations</b>	5	(7,396)	(12,463)
Gain on disposal of subsidiaries		–	10
Loss on sales of available-for-sales financial assets		(13,288)	–
Finance costs	6	(327)	(1,099)
Share of results of associates		–	–
<b>Loss before taxation</b>		(21,011)	(13,552)
Taxation	7	–	–
<b>Loss for the period</b>		<u>(21,011)</u>	<u>(13,552)</u>
<b>Attributable To:</b>			
Equity holders of the parent		(21,011)	(13,552)
Minority interest		–	–
		<u>(21,011)</u>	<u>(13,552)</u>
<b>Loss per share</b>	8		
Basic		<u>(6.68) cents</u>	<u>(3.10) cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>
<b>Dividend per share</b>	9	<u>Nil</u>	<u>Nil</u>

**Condensed Consolidated Balance Sheet***At 30 September 2006*

		<b>Unaudited</b> <b>At 30 September</b> <b>2006</b>	<b>Audited</b> <b>At 31 March</b> <b>2006</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	10	1,438	2,534
Interest in associates		–	–
Available-for-sale financial assets	11	–	2,807
		<u>1,438</u>	<u>5,341</u>
<b>Current assets</b>			
Inventories	12	32,856	38,073
Trade and other receivables, deposits and prepayments	13	11,902	13,535
Held-for-trading investments		–	44
Pledged bank deposits		5,275	1,736
Bank and cash balances		17,011	14,621
		<u>67,044</u>	<u>68,009</u>
<b>Current liabilities</b>			
Trade and other payables, accruals and deposits received	14	22,390	19,029
Short term loan	15	9,379	9,443
		<u>31,769</u>	<u>28,472</u>
<b>Net current assets</b>		<u>35,275</u>	<u>39,537</u>
<b>Total assets less current liabilities</b>		<u>36,713</u>	<u>44,878</u>
<b>Non-current liabilities</b>			
Provision for long service payments		959	959
		<u>959</u>	<u>959</u>
<b>NET ASSETS</b>		<u>35,754</u>	<u>43,919</u>
<b>Capital and reserves</b>			
Share capital	16	87	1,748
Reserves	17	35,667	42,171
<b>TOTAL EQUITY</b>		<u>35,754</u>	<u>43,919</u>

**Condensed Consolidated Statement of Changes in Equity**  
*For the six months ended 30 September 2006*

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>TOTAL EQUITY</b>		
At 1 April	43,920	50,205
<b>Changes in equity during the period</b>		
Fair value changes on available-for-sale financial assets	–	(7,074)
Exchange differences on translation foreign operations	–	(9)
Net loss recognised directly in equity	–	(7,083)
Reserves realised upon sales of available-for-sale financial assets	12,845	–
Reserve realised upon disposal of associates	–	(9)
Loss for the period	(21,011)	(13,552)
Total recognised income and expense for the period	(8,166)	(20,644)
At 30 September	<u>35,754</u>	<u>29,561</u>
<b>Total recognised income and expense for the period</b> <b>attributable to:</b>		
Equity holders of the parent	(8,166)	(20,644)
Minority interest	–	–
	<u>(8,166)</u>	<u>(20,644)</u>

**Condensed Consolidated Cash Flow Statement***For the six months ended 30 September 2006*

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
<b>NET CASH GENERATED FROM/(USED IN)</b>		
<b>OPERATING ACTIVITIES</b>	3,850	(11,852)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	(1,397)	(17,538)
<b>NET CASH (USED IN)/GENERATED FROM</b>		
<b>FINANCING ACTIVITIES</b>	(63)	17,150
<b>NET INCREASE/(DECREASE) IN CASH AND</b>		
<b>CASH EQUIVALENTS</b>	2,390	(12,240)
<b>CASH AND CASH EQUIVALENTS AT 1 APRIL</b>	14,621	19,252
<b>EFFECT OF FOREIGN EXCHANGE RATE</b>		
<b>CHANGES</b>	–	(21)
<b>CASH AND CASH EQUIVALENTS</b>		
<b>AT 30 SEPTEMBER</b>	<u>17,011</u>	<u>6,991</u>



**Notes to the unaudited condensed consolidated financial statements****1. BASIS OF PREPARATION**

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

**2. PRINCIPAL ACCOUNTING POLICIES**

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

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 March 2006, except as described below.

In the Period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (the “HKFRS”), Hong Kong Accounting Standards (the “HKAS”), Hong Kong (International Financial Reporting Interpretations Committee) Interpretations (the “HK(IFRIC) – Int”) and Interpretations (hereinafter collectively referred to as the “New HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 December 2005.

The adoption of these New HKFRSs has had no material effect on how the results for the current or prior accounting period have been prepared and presented. Accordingly, no prior period adjustment has been required.

**3. POTENTIAL IMPACT OF NEW STANDARDS NOT YET APPLIED**

The Group has not early applied the following New HKFRSs that have been issued but are not yet effective.

HKAS 1 (Amendment)	Presentation of financial statements: Capital disclosures
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of embedded derivatives

The Group has already commenced an assessment of the potential impact of these New HKFRSs but is not yet in a position to determine whether these New HKFRSs would have a significant impact on its results of operations and financial position.

## 4. SEGMENT INFORMATION

**Business segment**

The Group was principally engaged in the business of apparel trading, securities trading and strategic investments. The details are as follows:

	Apparel trading <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Strategic investments and others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>For the six months ended 30 September 2006</b>				
Turnover	36,514	55	–	36,569
Segment results	(4,960)	(3)	–	(4,963)
Interest income				149
Group overheads				(2,582)
Loss from operations				(7,396)
Loss on sales of available-for-sale financial assets			(13,288)	(13,288)
Finance costs				(327)
Loss before taxation				(21,011)
Taxation				–
Loss for the Period				(21,011)
<b>For the six months ended 30 September 2005</b>				
Turnover	43,224	4,556	–	47,780
Segment results	(7,265)	149	–	(7,116)
Interest income				8
Group overheads				(2,137)
Provision for loan receivables	–	–	(100)	(100)
Impairment loss of goodwill arising on acquisition of subsidiaries	(3,118)	–	–	(3,118)
Loss from operations				(12,463)
Gain on disposal of subsidiaries	1	–	9	10
Finance costs				(1,099)
Loss before taxation				(13,552)
Taxation				–
Loss for the period				(13,552)

## 5. LOSS FROM OPERATIONS

	Six months ended 30 September	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Loss from operations has been arrived at after charging/(crediting):		
Cost of goods sold	18,539	28,477
Depreciation	1,015	658
Loss on disposal/write-off of property, plant and equipment	451	39
Royalty income	<u>–</u>	<u>(205)</u>

## 6. FINANCE COSTS

	Six months ended 30 September	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest on short term loan wholly repayable within five years	<u>327</u>	<u>1,099</u>

## 7. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits for both periods.

## 8. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to equity holders of the parent for the Period of approximately HK\$21,011,000 (30 September 2005: loss of approximately HK\$13,552,000) and on the weighted average number of approximately 314,336,000 ordinary shares (30 September 2005: weighted average number of approximately 437,108,000 ordinary shares) in issue during the Period.

No disclosure of diluted loss per share has been presented as there were no dilutive potential shares in issue during both periods.

## 9. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (2005: Nil).

## 10. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
Net book value at 31 March 2006	2,534
Additions	420
Disposal/written off	(501)
Depreciation	<u>(1,015)</u>
Net book value at 30 September 2006	<u>1,438</u>

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	At 30 September 2006 <i>HK\$'000</i>	At 31 March 2006 <i>HK\$'000</i>
Listed equity securities in Hong Kong	—	2,807

## 12. INVENTORIES

	At 30 September 2006 <i>HK\$'000</i>	At 31 March 2006 <i>HK\$'000</i>
Merchandise goods for sales – Apparel	32,856	38,073

## 13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows a credit period normally ranging from cash on delivery to 120 days to its trade customers.

At 30 September 2006, the balance of trade and other receivables, deposits and prepayments included trade debtors of approximately HK\$6,384,000 (31 March 2006: HK\$8,278,000). An aged analysis of trade debtors, net of provision for bad and doubtful debts at the reporting dates is as follows:

	At 30 September 2006 <i>HK\$'000</i>	At 31 March 2006 <i>HK\$'000</i>
0 – 60 days	4,498	7,824
61 – 90 days	452	58
91 – 180 days	1,099	137
181 – 365 days	107	116
Over 1 year	228	143
	<u>6,384</u>	<u>8,278</u>

## 14. TRADE AND OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

At 30 September 2006, the balance of trade and other payables, accruals and deposits received included trade creditors of approximately HK\$1,244,000 (31 March 2006: HK\$2,791,000). An aged analysis of the trade creditors at the reporting dates are as follows:

	At 30 September 2006 <i>HK\$'000</i>	At 31 March 2006 <i>HK\$'000</i>
0 – 60 days	—	1,505
61 – 90 days	—	38
91 – 180 days	—	3
181 – 365 days	—	1
Over 1 year	1,244	1,244
	<u>1,244</u>	<u>2,791</u>

## 15. SHORT TERM LOAN

At 30 September 2006, the short term loan was extended by an independent third party which is interest bearing at bank's best lending rate less 2% per annum and due on 31 March 2007. The loan is secured by a pledge of all issued share capital in and the shareholder loan to Full Ahead Limited ("Full Ahead"), a wholly-owned subsidiary of the Group. Full Ahead is the holding company of the subsidiaries which are mainly engaged in apparel trading.

## 16. SHARE CAPITAL

	Number of shares	HK\$'000
Authorised:		
At 31 March 2006 and 30 September 2006:		
Ordinary shares of HK\$0.001 each	<u>300,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 1 April 2005:		
Ordinary shares of HK\$0.001 each	437,108,262	437
Open offer	<u>1,311,324,786</u>	<u>1,311</u>
At 1 April 2006		
Ordinary shares of HK\$0.001 each	1,748,433,048	1,748
Capital reduction	–	(1,661)
Share consolidation	<u>(1,661,011,396)</u>	<u>–</u>
At 30 September 2006		
Ordinary shares of HK\$0.001 each	<u>87,421,652</u>	<u>87</u>

At a special general meeting of the Company held on 26 April, 2006, a special resolution was passed pursuant to which the paid up capital of the Company was reduced from HK\$0.001 to HK\$0.00005 per share ("Reduced Share") by cancellation of HK\$0.00095 of the paid up capital on each issued share ("Capital Reduction"). As a result of the Capital Reduction and based on the number of issued shares of the Company as at 26 April 2006, an amount of approximately HK\$1,661,000 from the share capital account of the Company was cancelled and credited to the contributed surplus account of the Company where it was utilized to set off the accumulated losses of the Company. Immediately following the Capital Reduction became effective on 9 May 2006, every 20 Reduced Shares were consolidated into one share of HK\$0.001 each resulting in the total issued share capital of the Company reduced to 87,421,652 shares.

## 17. RESERVES

	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Reserve funds HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2006	709,633	(12,845)	1,190	135	(655,942)	42,171
Capital reduction	(709,633)	–	–	–	711,295	1,662
Reserve realised upon sales of available-for-sale financial assets	–	12,845	–	–	–	12,845
Loss for the Period	–	–	–	–	(21,011)	(21,011)
At 30 September 2006	<u>–</u>	<u>–</u>	<u>1,190</u>	<u>135</u>	<u>34,342</u>	<u>35,667</u>

## 18. CONTINGENCIES AND COMMITMENTS

(a) **Litigation**

In August 2005, Orient Rise Limited (“Orient Rise”) initiated a legal action against French Trade Marketing Limited and Euro Fashion Trading Company Limited, two wholly-owned subsidiaries of the Company, for a breach of the terms of sublicense causing loss and damages to Orient Rise.

Up to the date of this report, based on the legal advice obtained, the Directors believed that there is no ground for Orient Rise to make the claim and therefore, no provision has been made in the unaudited condensed consolidated financial statements.

(b) **Capital commitments**

	<b>At 30 September 2006 <i>HK\$'000</i></b>	<b>At 31 March 2006 <i>HK\$'000</i></b>
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
Acquisition of property in Malaysia	105,281	105,281
Acquisition of plant and equipment	—	79
	<u>105,281</u>	<u>105,360</u>

**4. MATERIAL CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material changes in the financial or trading position or outlook of the Group since 31 March 2006, the date to which the latest published audited consolidated accounts of the Group were made up.

**5. INDEBTEDNESS**

As at the close of business on 30 November 2006, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this Composite Offer Document, the Group had outstanding borrowings of approximately HK\$10.4 million which was a short term loan to be due on 31 March 2007. The loan is secured by the entire issued share capital in and shareholder's loan to Full Ahead Limited, a wholly-owned subsidiary of the Group.

As for contingent liabilities, the Group had an outstanding legal case as at 30 November 2006, details of which are set out in Appendix III "General Information" to this Composite Offer Document under the section headed "Litigation". Based on the legal advice obtained by the Group, the Directors believe that there is no reasonable ground for Orient Rise Limited, the plaintiff in the legal case, to make the claim, and therefore no provision has been made in the latest published interim results of the Group.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, or any guarantees, or other material contingent liabilities outstanding at the close of business on 30 November 2006.

## 1. RESPONSIBILITY STATEMENT

This Composite Offer Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Company and the Offeror. The information contained in this Composite Offer Document (other than those relating to the Offeror, the terms and conditions of the Offer and the Offeror's intention regarding the Group) is supplied by the Directors. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Offer Document (other than those relating to the Offeror, the terms and conditions of the Offer and the Offeror's intention regarding the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Offer Document (other than those relating to the Offeror, the terms and conditions of the Offer and the Offeror's intention regarding the Group) have been arrived at after due and careful consideration and there are no other facts (other than those relating to the Offeror, the terms and conditions of the Offer and the Offeror's intention regarding the Group) not contained in this Composite Offer Document, the omission of which would make any statement in this Composite Offer Document misleading.

The information contained in this Composite Offer Document relating to the Offeror, the terms and conditions of the Offer and the Offeror's intention regarding the Group, is supplied by the Offeror. The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this Composite Offer Document relating to the Offeror, the terms and conditions of the Offer and the Offeror's intention regarding the Group and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Offer Document relating to the Offeror, the terms and conditions of the Offer and the Offeror's intention regarding the Group have been arrived at after due and careful consideration and there are no other facts relating to the Offeror, the terms and conditions of the Offer and the Offeror's intention regarding the Group not contained in this Composite Offer Document, the omission of which would make any statement in this Composite Offer Document misleading.

## 2. SHARE CAPITAL

### Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised:</i>		<i>HK\$</i>
Ordinary Shares		
<u>300,000,000,000</u>	Shares	<u>300,000,000</u>
<i>Issued and fully paid or credited as fully paid:</i>		
Ordinary Shares		
<u>3,087,421,652</u>	Shares	<u>3,087,421.65</u>



Subsequent to 31 March 2006, being the date to which the latest audited consolidated financial statements of the Group were made up, and up to the Latest Practicable Date, 3,000,000,000 new Shares have been issued by the Company under the Share and Warrant Subscription Agreement. All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

As at the Latest Practicable Date, save as the Warrant conferring rights to subscribe up to HK\$6,000,000 in aggregate in cash for Shares at an initial exercise price of HK\$0.01 per Share (subject to adjustments) issued pursuant to the Share and Warrant Subscription Agreement and the Note which is expected to be issued on the 14th Business Day after the close of the Offer pursuant to the Note Subscription Agreement, the Group did not have any outstanding options, warrants or other securities carrying rights of conversion into or exchange or subscription for the Shares.

### 3. DISCLOSURE OF INTERESTS

#### (a) Directors' and chief executives' interests in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO which were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### Long position in Shares

Name of Director	Nature of interest	Number of Shares	Percentage of shareholding
Mr. Wong Ching Ping, Alex ( <i>Note 1</i> )	Interest of a controlled corporation	20,609,330	0.67%

*Note:*

- (1) The entire issued share capital of Leopard Vision Limited is held by Byford Group Limited which in turn is held by Expert Rich Investments Limited. Expert Rich Investments Limited is wholly-owned by Mr. Wong Ching Ping, Alex. Mr. Wong is therefore deemed to be interested in the above Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange. Saved as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest in the Shares, options, warrants, derivatives or securities convertible into Shares.

**(b) Substantial Shareholders' interests in securities of the Company**

As at the Latest Practicable Date, so far as known to any Directors or chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

**Long position in Shares**

<b>Name of Shareholder</b>	<b>Nature of interest</b>	<b>Number of Shares</b>	<b>Percentage of shareholding</b>
			<i>(Note 3)</i>
Mr. Poh Po Lian <i>(Note 1)</i>	Interest of a controlled corporation	3,600,000,000 <i>(Note 2)</i>	116.60%
The Offeror <i>(Note 1)</i>	Beneficial	3,600,000,000 <i>(Note 2)</i>	116.60%
Mr. Cheng Chee Tock, Theodore <i>(Note 4)</i>	Interest of a controlled corporation	2,400,000,000 <i>(Note 6)</i>	77.73%
Ms. Yung Leonora <i>(Note 5)</i>	Family interest	2,400,000,000 <i>(Note 6)</i>	77.73%
The Note Subscriber <i>(Note 4)</i>	Beneficial	2,400,000,000 <i>(Note 6)</i>	77.73%

*Notes:*

- (1) The entire issued share capital of the Offeror is held by Mr. Poh Po Lian. Mr. Poh is therefore deemed to be interested in the 3,600,000,000 Shares.
- (2) The 3,600,000,000 Shares represent 3,000,000,000 Shares beneficially owned by the Offeror and 600,000,000 Shares which the Offeror will acquire upon full exercise of the subscription rights attaching to the Warrant at the initial exercise price of HK\$0.01 per Share.
- (3) The percentage of shareholding is calculated by the number of Shares interested or deemed to be interested bears to the total number of the issued Shares as at the Latest Practicable Date.
- (4) The entire issued share capital of the Note Subscriber is held by Mr. Cheng Chee Tock, Theodore. Mr. Cheng is therefore deemed to be interested in the 2,400,000,000 Shares.
- (5) Ms. Yung Leonora is the spouse of Mr. Cheng Chee Tock, Theodore. Ms. Yung is therefore deemed to be interested in the 2,400,000,000 Shares.
- (6) The 2,400,000,000 Shares represent the Shares which the Note Subscriber will acquire upon full conversion of the Note at the initial conversion price of HK\$0.01 per Share.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executives of the Company, no other person (not being a Director or chief executive of the Company) had any interests or short positions in shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange, under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

**(c) Other interests in the Company**

- (i) As at the Latest Practicable Date, no Director has indicated any intention, in respect of his own shareholding in the Company, to accept or to reject the Offer.
- (ii) No persons, prior to the posting of this Composite Offer Document, have irrevocably committed themselves to accept or reject the Offer.
- (iii) None of the Company's subsidiaries, pension fund of the Company or its subsidiaries or advisers to the Company as specified in class (2) of the definition of associates under the Takeovers Code but excluding exempt principal traders had any interest in the Shares, options, warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date nor had any of them dealt for value in Shares, options, warrants, derivatives or securities convertible into Shares during the period beginning six months prior to the date of the Joint Announcement and up to the Latest Practicable Date.
- (iv) As at the Latest Practicable Date, no Shares, options, warrants, derivatives or securities convertible into Shares were managed on a discretionary basis by fund managers connected with the Company.
- (v) As at the Latest Practicable Date, no Shares, options, warrants, derivatives or securities convertible into Shares were held by Mitsubishi UFJ or any party controlling, controlled by or under the same control as Mitsubishi UFJ.
- (vi) As at the Latest Practicable Date, save as the Shares, options, warrants, derivatives or securities convertible into Shares held for and on behalf of its individual clients and the Subscription Shares which are pledged to Emperor Securities, no Shares, options, warrants, derivatives or securities convertible into Shares were held by Emperor Securities or any party controlling, controlled by or under the same control as Emperor Securities. Emperor Securities is deemed to be acting in concert with the Offeror for the purpose of the Offer.

- (vii) As at the Latest Practicable Date, save for the 3,000,000,000 Shares acquired at HK\$0.01 per Subscription Share and the Warrant conferring rights to subscribe up to HK\$6,000,000 in aggregate in cash for Shares at an initial exercise price of HK\$0.01 per Share (subject to adjustments) upon completion of the Share and Warrant Subscription on 31 January 2007, the Offeror and Mr. Poh Po Lian did not have any Shares, options, warrants, derivatives and securities convertible into Shares. Save for the Share and Warrant Subscription, none of the Offeror or Mr. Poh Po Lian had dealt in any Shares or other securities of the Company during the period beginning six-month prior to the date of the Joint Announcement and up to the Latest Practicable Date.

**(d) Interests in the Offeror**

- (i) Neither the Company nor any of the Directors had any interest in the shares, options, warrants, derivatives or securities convertible into shares of the Offeror as at the Latest Practicable Date nor had any of them dealt for value in such shares, options, warrants, derivatives or securities convertible into shares of the Offeror during the period beginning six months prior to the date of the Joint Announcement and up to the Latest Practicable Date.

**4. DEALINGS IN SECURITIES**

The following table sets out the dealings in the Shares, options, warrants, derivatives or securities convertible into Shares by the Offeror during the six-month period prior to the date of the Joint Announcement and up to the Latest Practicable Date.

<b>Date</b>	<b>Type of transaction</b>	<b>No. of Shares transacted</b>	<b>Price per Share (HK\$)</b>
31 January 2007	Share subscription	3,000,000,000	0.01
31 January 2007	Warrant subscription	600,000,000 (Note 1)	0.01

*Note 1:* The 600,000,000 Shares represent the Shares which the Offeror will acquire upon full exercise of the subscription rights attaching to the Warrant at the initial exercise price of HK\$0.01 per Share.

Pursuant to the Takeovers Code, as the Offer is made through Mitsubishi UFJ, and Mitsubishi UFJ is the financial adviser to the Offeror, Mitsubishi UFJ is deemed to be acting in concert with the Offeror for the purpose of the Offer. Mitsubishi UFJ or any party controlling, controlled by or under the same control of Mitsubishi UFJ has not dealt for value in the Shares, options, warrants, derivatives or securities convertible into Shares in the six-month period prior to the date of the Joint Announcement and up to the Latest Practicable Date.

The consideration for the Subscription Shares was financed by Emperor Securities and the aggregate consideration for the Offer will be wholly financed by a loan facility provided by Emperor Securities to the Offeror. All the Subscription Shares subscribed by the Offeror pursuant to the Subscription Agreement and all the Shares to be acquired by Offeror under the Offer (if any) by use of the loan facility shall be deposited with Emperor Securities from time to time as collateral for such loan facilities. Pursuant to the Takeovers Code, Emperor Securities is deemed to be acting in concert with the Offeror for the purpose of the Offer. Save as the dealings in the Shares for and on behalf of its individual clients, Emperor Securities (or any party controlling, controlled by or under the same control as Emperor Securities) has not dealt for value in the Shares, options, warrants, derivatives or securities convertible into Shares in the six-month period prior to the date of the Joint Announcement and up to the Latest Practicable Date.

Save as disclosed above, the Offeror, the sole director of the Offeror and parties acting in concert with the Offeror had no other dealings in the Shares, options, warrants, derivatives or securities convertible into Shares in the six-month period prior to the date of the Joint Announcement and up to the Latest Practicable Date.

Neither the Directors nor Leopard Vision Limited had dealt for value in the Shares, options, warrants, derivatives or securities convertible into Shares in the six-month period prior to the date of the Joint Announcement and up to the Latest Practicable Date.

No fund managers connected with the Company had dealt for value in any Shares, options, warrants, derivatives or securities convertible into Shares in the six-month period prior to the date of the Joint Announcement and up to the Latest Practicable Date.

## 5. MARKET PRICES

- (a) The table below shows the closing prices of the Shares as quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the period commencing six months immediately preceding the date of the Joint Announcement and up to the Latest Practicable Date, (ii) the Last Trading Day, and (iii) the Latest Practicable Date:

	<i>HK\$ per Share</i>
30 June 2006	0.59
31 July 2006	0.60
31 August 2006	0.58
29 September 2006	0.56
31 October 2006	0.58
30 November 2006	0.51
12 December 2006 (being the Last Trading Day)	0.63
29 December 2006	1.95
31 January 2007	2.00
2 February 2007 (being the Latest Practicable Date)	1.96

- (b) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period between 22 June 2006, being the date six months preceding the date of the Joint Announcement, and ending on the Latest Practicable Date are as follows:

		<i>Dates</i>
Highest closing price	HK\$2.14	30 January 2007
Lowest closing price	HK\$0.51	30 November, 1 December, 4 December and 5 December 2006

## 6. ARRANGEMENTS IN CONNECTION WITH THE OFFER

- (a) As at the Latest Practicable Date, save for the Offer Shares to be acquired by the Offeror which will be deposited with Emperor Securities from time to time as collateral for the loan facility granted to the Offeror by Emperor Securities, there was no agreement, arrangement or understanding existing whereby any securities to be acquired pursuant to the Offer will be transferred, charged or pledged to any other persons. As at the Latest Practicable Date, save as the Shares, options, warrants, derivatives or securities convertible into Shares held for and on behalf of its individual clients and the Subscription Shares which are pledged to Emperor Securities, no Shares, options, warrants, derivatives or securities convertible into Shares was held by Emperor Securities.
- (b) As at the Latest Practicable Date, there was no agreement, arrangement or understanding existing between the Offeror or any parties acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependent upon the Offer.
- (c) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in note 8 to Rule 22 of the Takeovers Code with (i) the Company; (ii) any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code; (iii) the Offeror; or (iv) any parties acting in concert with the Offeror.
- (d) As at the Latest Practicable Date, no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offer.

## 7. ARRANGEMENT AFFECTING DIRECTORS

There is no benefit (other than statutory compensation) to be given to any Director as compensation for loss of office or otherwise in connection with the Offer. There is no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or is otherwise connected with the Offer. There is no material contract entered into by the Offeror in which any Director has a material personal interest.

**8. SERVICE CONTRACTS**

None of the Directors has entered into any services contracts with the Company or any of its subsidiaries or associated companies in force,

- (i) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the commencement of the Offer period;
- (ii) which are continuous contracts with a notice period of 12 months or more; or
- (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

**9. EXPERTS AND CONSENTS**

The following are the qualifications of the experts whose letters and reports (as the case may be) are contained in this Composite Offer Document:

<b>Name</b>	<b>Qualifications</b>
Mitsubishi UFJ Securities (HK) Capital, Limited	a licensed corporation permitted to carry on business in types 1, 4, 6 and 9 regulated activity (dealing in securities, advising on securities, advising on corporate finance and asset management) under the SFO
Wallbank Brothers Securities (Hong Kong) Limited	a licensed corporation permitted to carry on business in types 4, 6 and 9 regulated activity (advising on securities, advising on corporate finance and asset management) under the SFO

Each of Mitsubishi UFJ and the Independent Financial Adviser has given and has not withdrawn their written consents to the issue of this Composite Offer Document with the inclusion of their respective letter reports and the references to their respective names in the form and context in which they respectively appear.

**10. LITIGATION**

As at the Latest Practicable Date, save as disclosed below, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation of claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

In August 2005, Orient Rise Limited (“Orient Rise”) initiated a legal action against French Trade Marketing Limited and Euro Fashion Trading Company Limited, two wholly-owned subsidiaries of the Company, for a breach of the terms of sublicense causing loss and damages (to be assessed) to Orient Rise.

Based on the legal advice obtained by the Group, the Directors believed that there is no reasonable ground for Orient Rise to make the claim and therefore, no provision has been made in the unaudited condensed consolidated financial statements for the six months ended 30 September 2006.

**11. MATERIAL CONTRACTS**

Save for disclosed hereunder, no contract, not being a contract entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries, has been entered into by any member of the Group after the date two years prior to the date of the Joint Announcement and up to the Latest Practicable Date which is, or may be, material:

- (i) an underwriting agreement dated 18 October 2005 made between the Company, various underwriters and Leopard Vision Limited in relating to an open offer of 1,311,324,786 offer shares at HK\$0.023 per offer share;
- (ii) the Share and Warrant Subscription Agreement,
- (iii) the Note Subscription Agreement, and
- (iv) the warrant instrument dated 31 January 2007 constituting the Warrant.

**12. MISCELLANEOUS**

- (a) The branch share registrar and transfer office of the Company in Hong Kong is Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal office of the Company in Hong Kong is at Room 1901, 19th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (c) The Board comprises two executive Director, namely, Mr. Wong Ching Ping, Alex and Mr. Lim Direk and three independent non-executive Directors, namely, Mr. Chu Kar Wing, Dr. Chow King Wai and Mr. Tang Yiu Wing.
- (d) The company secretary and qualified accountant of the Company is Mr. Ho Koon Man, who is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants.
- (e) The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members namely, Mr. Chu Kar Wing, Dr. Chow King Wai and Mr. Tang Yiu Wing, all being independent non-executive Directors.
- (f) The principal members of the parties acting in concert with the Offeror include the Offeror and Mr. Poh Po Lian, who is the sole director and shareholder of the Offeror.
- (g) The registered office of the Offeror is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The correspondence address of the Offeror and Mr. Poh Po Lian in Hong Kong is at Room 4213, Southwest Tower, Convention Plaza Apartment, 1 Harbour Road, Wanchai, Hong Kong.



- (h) The registered office of Mitsubishi UFJ is at 11th Floor, AIG Tower, 1 Connaught Road Central, Hong Kong.
- (i) The registered office of Emperor Securities is 23rd and 24th Floors, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.
- (j) The registered office of the Independent Financial Adviser is at Room 1005B, Lippo Centre Tower I, 89 Queensway, Admiralty.
- (k) The English texts of this Composite Offer Document and the Form of Acceptance and Transfer shall prevail over their respective Chinese texts.

### 13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) from 9:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:30 p.m., on any weekday (except for public holidays) at the principal office of the Company in Hong Kong at Room 1901, 19th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong; (ii) on the Company's website at [www.foundationgroupplimited.com](http://www.foundationgroupplimited.com) and (iii) on the website of the SFC at [www.sfc.hk](http://www.sfc.hk) from the date of this Composite Offer Document up to and including the closing date of the Offer:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of the Company for the two years ended 31 March 2006;
- (d) the interim report of the Company for the six months ended 30 September 2006;
- (e) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 18 of this Composite Offer Document;
- (f) the letter of advice from the Independent Financial Adviser to the Independent Board Committee, the text of which is set out on pages 19 to 39 of this Composite Offer Document;
- (g) the letter from Mitsubishi UFJ, the text of which is set out on pages 11 to 17 of this Composite Offer Document;
- (h) the letters of consent referred to in the paragraph headed "Experts and Consents" in this Appendix;
- (i) the contracts referred to under the paragraph headed "Material Contracts" in this Appendix; and
- (j) the agreement dated 19 December 2006 in relation to a loan facility provided by Emperor Securities to the Offeror for the Offer.