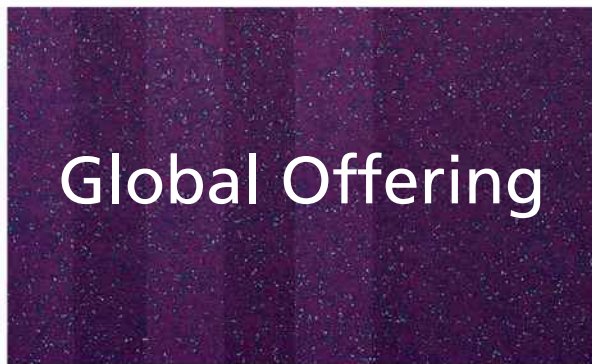
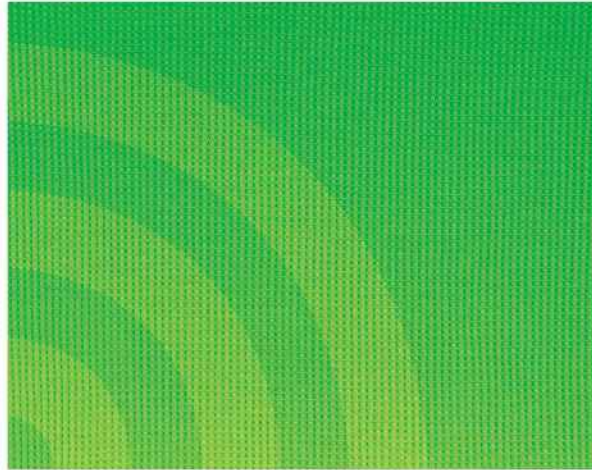




PACIFIC TEXTILES HOLDINGS LIMITED 互太紡織控股有限公司*

(incorporated in the Cayman Islands with limited liability)
Stock code: 1382



Joint Global Coordinators, Joint Bookrunners,
Joint Lead Managers and Joint Sponsors



Morgan Stanley

* For identification purposes only

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



PACIFIC TEXTILES HOLDINGS LIMITED

互太紡織控股有限公司*

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering:	358,234,000 Shares (subject to adjustment and the Over-allotment Option)
Number of Public Offer Shares:	35,824,000 Shares (subject to adjustment)
Number of International Placing Shares:	322,410,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price:	HK\$5.50 per Offer Share, plus brokerage fee of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value:	HK\$0.001 per Share
Stock code:	1382

*Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Joint Sponsors
(in alphabetical order)*



Morgan Stanley

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, 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 prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us, on the Price Determination Date. The Price Determination Date is expected to be on or around May 11, 2007 and, in any event, not later than May 15, 2007. The Offer Price will be not more than HK\$5.50 and is currently expected to be not less than HK\$4.15. Applicants for Public Offer Shares are required to pay, on application, the maximum offer price of HK\$5.50 for each Share, together with brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK\$5.50.

The Joint Global Coordinators (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares and/or the indicative offer price range below that stated in this prospectus (which is HK\$4.15 to HK\$5.50 per Share) at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Public Offer. Applicants under the Public Offer should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range is so reduced. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Public Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed by May 15, 2007 between us and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering (including the Public Offer) will not proceed and will lapse.

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe for or purchase, and to procure applicants for the subscription or purchase of, the Public Offer Shares, are subject to termination by the Joint Global Coordinators (on behalf of the Public Offer Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Public Offer Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in the prospectus. It is important that you refer to that section for further details.

* For identification purposes only

EXPECTED TIMETABLE¹

Latest time to lodge pink Application Forms	5:00 p.m. on Wednesday, May 9, 2007
Application lists open ²	11:45 a.m. on Thursday, May 10, 2007
Latest time to lodge white and yellow Application Forms	12:00 noon on Thursday, May 10, 2007
Latest time to give electronic application instructions to HKSCC ³	12:00 noon on Thursday, May 10, 2007
Latest time to complete electronic applications under the White Form eIPO service through the designated website at www.eipo.com.hk ⁴	12:00 noon on Thursday, May 10, 2007
Application lists close	12:00 noon on Thursday, May 10, 2007
Expected Price Determination Date ⁵	Friday, May 11, 2007
The Offer Price, the level of indication of interest in the International Placing, the basis of allotment, the results of applications and Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer to be available through a variety of channels as described in the section headed “How to Apply for Public Offer Shares — IX. Publication of Results” in this prospectus from	Thursday, May 17, 2007
Dispatch of share certificates in respect of wholly or partially successful applications on or before ⁶	Thursday, May 17, 2007
Dispatch of refund checks in respect of wholly or partially unsuccessful applications on or before ⁶	Thursday, May 17, 2007
Dealings in Shares on the Stock Exchange expected to commence on	Friday, May 18, 2007

Notes:

1. All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
2. If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force at any time between 9:00 a.m. and 12:00 noon on Thursday, May 10, 2007, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for Public Offer Shares — Effect of bad weather on the opening of the application lists” in this prospectus.
3. Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Public Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC” in this prospectus.
4. You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

EXPECTED TIMETABLE¹

5. Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about May 11, 2007. Notwithstanding that the Offer Price may be fixed at below the maximum offer price of HK\$5.50 per Share payable by applicants for Shares under the Public Offer, applicants who apply for Shares must pay on application the maximum offer price of HK\$5.50 per Share plus the brokerage fee of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the section headed “How to Apply for Public Offer Shares” in this prospectus.
6. Applicants who apply for 1,000,000 or more Public Offer Shares and have indicated in their Application Forms their wish to collect refund checks and, where applicable, share certificates in person may do so from our Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Thursday, May 17, 2007 or any other date notified by us in the newspaper as the date of dispatch of share certificates and refund checks. Applicants who are individuals and who opt for personal collection must not authorize any other person to make their collection on their behalf. Applicants who are corporations and who opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporation stamped with the corporations’ chops. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected share certificates and refund checks will be dispatched by ordinary post at the applicant’s own risk to the addresses specified in the relevant Application Forms shortly thereafter. Further information is set out in the section headed “How to Apply for Public Offer Shares”. Share certificates will only become valid certificates of title provided that the Public Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at or around 8:00 a.m. on May 18, 2007.

CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information not provided or representation not made, in this prospectus must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, any of the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering.

The information contained in this prospectus is not for distribution, directly or indirectly, in or into the United States (including its territories and dependencies, any State of the United States and the District of Columbia). These materials do not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The Shares mentioned herein have not been, and will not be, registered under the United States Securities Act of 1933 (the “Securities Act”).

The Shares may not be offered or sold in the United States except pursuant to registration or an exemption from the registration requirements of the Securities Act. No public offering of the securities will be made in the United States.

	Page
Expected Timetable	i
Contents	iii
Summary	1
Definitions	8
Glossary of Technical Terms	15
Risk Factors	18
Forward-Looking Statements	32
Waivers from Compliance with the Listing Rules and the Companies Ordinance	34
Information About This Prospectus and The Global Offering	35
Directors and Parties Involved in the Global Offering	40
Corporate Information	44
Industry Overview	47
Corporate Structure and History	58
Business	64
Connected Transactions	95
Directors and Senior Management	101
Share Capital	107
Substantial Shareholders	109
Financial Information	110
Future Plans and Prospects	137
Use of Proceeds	139
Underwriting	140
Structure of the Global Offering	145
How to Apply for Public Offer Shares	152
Appendix I — Accountants’ Report	I-1
Appendix II — Unaudited Pro Forma Financial Information	II-1
Appendix III — Profit Estimate	III-1
Appendix IV — Property Valuation	IV-1
Appendix V — Summary of the Constitution of the Company and Cayman Islands Companies Law	V-1
Appendix VI — Statutory and General Information	VI-1
Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection	VII-1

SUMMARY

This summary is an overview of the information contained in this prospectus and does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading manufacturer of customized knitted fabrics with a focus on complex, value-added fabrics. We collaborate closely with apparel brand owners to design fabrics that meet customized order particulars. Our finished fabrics comprise more than 3,000 designs and specifications which we sell to garment manufacturers worldwide to produce garments for premium apparel brand owners. Our fabrics are used in a broad range of garments, including men's, women's and children's clothing, sportswear, swimwear and inner-wear. We have established relationships with owners of leading brands such as Calvin Klein, Maidenform, Triumph, UNIQLO, VF Intimates and Victoria's Secret.

Our principal manufacturing facility is a modern, integrated knitting, dyeing and printing facility in Panyu, China, with an aggregate floor space of approximately 294,400 square meters. We offer warp and weft knitting along with printing services. In 2004, as part of our strategy to expand our production volume and the geographic scope of our operations, we acquired a controlling interest in a knitting and dyeing facility in Avissawella, Sri Lanka, namely PT Sri Lanka, and have since expanded its annual production capacity.

The following table sets forth our annual revenue, operating profit, profit attributable to equity holders, operating margin, profit margin and sales volume for each year in the three years ended March 31, 2006 and the eight months ended November 30, 2005 and 2006:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005	2006
				(unaudited)	
Selected income statement data:	(in thousands of HK dollars, except sales volume data)				
Revenue	2,265,821	2,922,840	3,363,029	2,187,012	2,887,077
Operating profit	382,031	410,882	555,901	366,170	492,162
Profit attributable to equity holders of the Company	307,299	351,679	458,855	308,344	397,612
Selected operating data:					
Operating margin	16.9%	14.1%	16.5%	16.7%	17.0%
Profit margin	13.6%	12.0%	13.6%	14.1%	13.8%
Sales volume (million pounds)	90	112	126	82	106

SUMMARY

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths position us to capitalize on significant opportunities to grow our business:

- Strong growth prospects through multiple channels
- Efficient production model driven by modern facilities and advanced technologies
- Focus on value-added fabrics with higher margins
- Established relationships with premium apparel brand owners
- Strong operating cash flow to support capital expenditures with substantial financial growth
- Experienced management with proven track record
- Ability to capitalize on migration of the garment and textile industry to Asia

OUR BUSINESS STRATEGIES

Our principal business strategies are:

- Expand and upgrade production facilities
- Develop new warp and weft knitted fabrics and diversify fabric specifications
- Strengthen design and printing capabilities
- Enter new geographic markets

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

The selected historical consolidated financial data set forth below have been extracted from the consolidated financial information of the Group for each of the three years ended March 31, 2006 and the eight months ended November 30, 2005 and 2006 (the “Financial Information”), all of which is set forth in the Accountants’ Report attached as Appendix I to this prospectus. The Financial Information has been prepared on the basis set out in Section II(2) of Appendix I to this prospectus and in accordance with HKFRS. Investors should read these selected consolidated financial data together with Appendix I to this prospectus and the discussion under the paragraph headed “Results of Operations” in the “Financial Information” section.

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	(in thousands of HK dollars unless otherwise indicated)				
Revenue	2,265,821	2,922,840	3,363,029	2,187,012	2,887,077
Cost of sales	(1,628,508)	(2,283,379)	(2,560,773)	(1,660,654)	(2,222,519)
Gross profit	637,313	639,461	802,256	526,358	664,558
Other revenue	20,152	34,125	48,931	26,064	29,899
Distribution and selling expenses	(149,615)	(128,928)	(129,624)	(83,186)	(95,301)
General and administrative expenses	(125,819)	(133,776)	(165,662)	(103,066)	(106,994)
Operating profit	382,031	410,882	555,901	366,170	492,162
Finance costs	(1,460)	(4,525)	(7,404)	(4,139)	(29,012)
Share of loss of associates	—	—	(272)	—	(886)
Profit before income tax	380,571	406,357	548,225	362,031	462,264
Income tax expense	(73,272)	(55,933)	(78,875)	(51,327)	(59,602)
Profit for the year/period	307,299	350,424	469,350	310,704	402,662
Attributable to:					
Equity holders of the Company	307,299	351,679	458,855	308,344	397,612
Minority interests	—	(1,255)	10,495	2,360	5,050
	<u>307,299</u>	<u>350,424</u>	<u>469,350</u>	<u>310,704</u>	<u>402,662</u>
Dividends	—	127,720	941,205	161,205	234,000
Earnings per share (HK\$ per share) ¹	<u>298.35</u>	<u>71.23</u>	<u>42.70</u>	<u>28.69</u>	<u>37.00</u>

Note:

- The calculation of basic earnings per share for each of the three years ended March 31, 2004, 2005, 2006 and the eight months ended November 30, 2005 and 2006 is based on the profit attributable to the equity holders of the Company for the relevant periods and the weighted average number of 1,030,000, 4,937,000, 10,747,000, 10,747,000 and 10,747,000 shares respectively.

	As at March 31,			As at November 30,
	2004	2005	2006	2006
	(in thousands of HK dollars)			
Selected balance sheet data:				
Total non-current assets	624,429	854,419	956,292	1,163,335
Total current assets	1,194,793	1,230,243	1,398,436	1,654,080
Total assets	1,819,222	2,084,662	2,354,728	2,817,415
Total current liabilities	674,315	479,400	797,514	996,065
Total assets less current liabilities	1,144,907	1,605,262	1,557,214	1,821,350
Total non-current liabilities	26,776	81,624	469,918	521,792
Total equity	1,118,131	1,523,638	1,087,296	1,299,558
Net current assets	<u>520,478</u>	<u>750,843</u>	<u>600,922</u>	<u>658,015</u>

SUMMARY

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

After completion of the Global Offering, our shareholders will be entitled to receive dividends declared by us. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant.

Final dividends, if any, on the outstanding Shares must be recommended by our Board and approved at our annual general meeting of shareholders. In addition, the Board may declare special and interim dividends. The payment and the amount of any dividends declared will be subject to our Memorandum and Articles of Association and the Cayman Islands Companies Law. We are entitled under our Memorandum and Articles of Association and the Cayman Islands Companies Law to pay dividends out of profits and reserves, including share premium, provided that on the date the proposed dividend is to be paid, we are able to pay our debts when they fall due in the ordinary course of business.

Subject to the above-mentioned, from our fiscal year ending March 31, 2008, our Directors currently intend to declare a cash dividend in an amount equivalent to approximately 30% of the consolidated profit attributable to equity holders of our Company for each fiscal year.

Our total reserves as at November 30, 2006 were HK\$189 million. In April 2007, the Company accounted for dividends declared by its subsidiaries in the amount of approximately HK\$611 million. Accordingly, we had total reserves in the amount of approximately HK\$800 million. On April 26, 2007, the Board of Directors declared a special dividend in the amount of approximately HK\$780 million to our existing shareholders which will be financed by means of a new bank loan of HK\$600 million with a maturity of three years and at an interest rate of HIBOR + 49bps, and the balance funded from our internal resources. The new bank loan will be drawn-down no later than one business day prior to the Listing Date and the loan proceeds will be paid directly to the recipients of the dividend.

OFFERING STATISTICS

	Based on Offer Price of HK\$4.15	Based on Offer Price of HK\$5.50
Market capitalization ¹ (in billions of HK dollars)	5.95	7.88
Unaudited pro forma adjusted net tangible asset value per Share (HK\$ per share) ²	1.84	2.17

Notes:

1. The calculation of market capitalization is based on 1,432,936,000 Shares expected to be in issue immediately following the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised).
2. The unaudited pro forma adjusted net tangible asset value per Share as at November 30, 2006 is calculated after making the adjustments referred to in the section "Unaudited Pro Forma Financial Information" in Appendix II and on the basis of a total of 1,432,936,000 Shares in issue immediately following the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised).

SUMMARY

USE OF PROCEEDS

Based on an Offer Price of HK\$4.83 per Share (being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus), we estimate that the net proceeds from the Global Offering (after deducting the underwriting commissions and other estimated offering expenses payable by us) will be approximately HK\$1,622 million (equivalent to approximately US\$208 million), assuming that the Over-allotment Option is not exercised. We intend to use these net proceeds for the following purposes:

- approximately HK\$762 million (equivalent to approximately US\$98 million) (approximately 47% of the net proceeds from the Global Offering) is expected to be used for the repayment of an existing syndicated loan and other bank loans which were used for working capital and other operational purposes, particulars of which are set forth below:

<u>Bank</u>	<u>Due date</u>	<u>Interest rate</u> (%)	<u>Amount</u> (HK\$ million)
Citicorp International Limited	March 15, 2009	HIBOR+62bps	607
Hang Seng Bank Limited	May 23, 2007	HIBOR+45bps	50
The Hong Kong Shanghai Banking Corporation Limited	May 23, 2007	HIBOR+50bps	50
BNP Paribas, Hong Kong Branch	May 23, 2007	Cost of funds+40bps	35
The Standard Chartered (Hong Kong) Bank	May 23, 2007	HIBOR+50bps	20
			762

- approximately HK\$700 million (equivalent to approximately US\$90 million) (approximately 43% of the net proceeds from the Global Offering) is expected to be used primarily to fund capital expenditures for the expansion and upgrade of our facilities and operations; and
- the balance of approximately HK\$160 million (equivalent to approximately US\$21 million) (approximately 10% of the net proceeds from the Global Offering) will be used to fund our general working capital.

We will draw down a new bank loan of HK\$600 million (equivalent to approximately US\$77 million) no later than one business day prior to the Listing Date to partly fund the payment of a special dividend declared on April 26, 2007. Please see “Financial Information — Dividend Policy and Distributable Reserves”.

RISK FACTORS

- We operate in a highly competitive industry and we may lose market share if we do not compete successfully.
- Our operating results are highly dependent on the fashion industry, and if we do not respond successfully to changes in fashion trends and customer demands, our operating results could be materially and adversely affected.
- Our operating results may be adversely affected by increases in the prices of yarn and other raw materials we use in our production processes.
- Increases in the cost of labor or disruption in the availability of labor may materially and adversely affect our operation, competitiveness and profitability.
- We generally do not enter into long-term contracts with our customers, which exposes us to uncertainty and potential volatility with respect to our revenue from period to period.
- We depend on a few key garment manufacturers and apparel brand owners for a substantial portion of our sales and loss of, or a significant reduction in, sales to any of them could significantly reduce our revenues.

SUMMARY

- Our future expansion plans are subject to risks and uncertainties, and may be difficult or expensive to manage.
- Failure to secure additional funding in the future may materially and adversely affect our growth prospects and future profitability.
- Our strategy of acquiring complementary businesses and assets may not be successful.
- We depend on certain key personnel, and our business and growth prospects may be disrupted if we lose their services.
- Our results of operations could be harmed if we fail to comply with environmental laws and regulations.
- Failure to obtain required environmental approvals could lead to the suspension of our expansion projects at certain production facilities.
- Failure to obtain required construction permits could lead to the imposition of penalties.
- Insufficient energy supply or increasing energy costs could adversely affect our business, financial condition and results of operations.
- Non-compliance with PRC employee social welfare contribution regulations could lead to the imposition of fines or penalties.
- Our insurance coverage may not be sufficient to cover the risks related to our operations and losses.
- If our reputation is harmed, our business and operating results may suffer.
- Some of the brand owners we have relationships with are sensitive about environmental and social responsibility standards and any perception on their part that we may fail to meet those standards could adversely affect our operations and profitability.
- The fabric manufacturing business has been and is expected to remain seasonal.
- Natural disasters or political instability may result in significant damage to our facilities and disrupt our business operations.
- Any future outbreak of a contagious disease, such as avian influenza, may have a negative impact on our business and operating results.
- Failure to obtain or renew licenses, certificates and permits required in the production and sale of fabrics may have a negative impact on our business and operating results.
- Our business benefits from certain tax and other government incentives. Expiration of, or changes to, these incentives could have a material adverse effect on our operating results.
- Our corporate and operational structure involves transfer pricing transactions. Changes to relevant laws and regulations or the PRC tax authorities' policy or approach towards transfer pricing may adversely affect our financial results.
- Import quotas, higher tariffs or other trade barriers imposed by the United States, the European Union or other WTO member nations on the textile industry may have a material adverse impact on our results of operations.
- Appreciation or devaluation of the Renminbi could materially affect our financial condition and results of operations.
- Investors may experience difficulty in effecting service of legal process and enforcing judgments against us and our directors and management.

SUMMARY

- Investors may face difficulties in protecting their interests because we are incorporated under Cayman Islands law and these laws may provide less protection to minority shareholders than the laws of Hong Kong.
- Changes in political and economic policies may have a negative impact on our operations.
- Macroeconomic measures taken by the PRC government may cause the PRC economy to slow down.
- Changes and uncertainties in the PRC legal system may have an adverse impact on our operations.
- There has been no prior public market for our Shares and an active trading market may not develop.
- The trading volume and price of our Shares may fluctuate.
- Investors will experience dilution of pro forma adjusted net tangible asset value because the Offer Price is higher than our net tangible book value per Share and may also experience dilution if we issue additional Shares in the future.
- Dividends paid in the past may not be indicative of the amount of future dividend payments or our future dividend policy.
- Significant stock ownership by Directors could result in their substantial influence over our future direction.
- Future sales of substantial amounts of our Shares in the public market could adversely affect the prevailing market price of our Shares.
- Investors should not place undue reliance on industry and market information and statistics from official government publications contained in this prospectus.
- Investors should read the entire prospectus carefully and should not consider any particular statement in this prospectus or in any published media report without carefully considering the risk factors and other information contained in this prospectus.

THE LATEST FINANCIAL PERIOD REPORTED ON BY THE REPORTING ACCOUNTANTS REQUIRED UNDER THE LISTING RULES AND THE COMPANIES ORDINANCE

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a statement as to the gross trading income or sales revenue during the three years preceding the issue of this prospectus.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results of the Company for each of the three financial years immediately preceding the issue of this prospectus.

According to Rule 4.04(1) of the Listing Rules, the Company is required to include in this prospectus an Accountants' Report covering the consolidated results of the Group in respect of each of the three financial years immediately preceding the issue of this prospectus.

In this regard, we have applied for (i) a waiver from strict compliance with the disclosure requirements under Rule 4.04(1) to the Listing Rules (which the Stock Exchange has granted) and (ii) an exemption from strict compliance with the disclosure requirements of paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance (which the SFC has granted) such that the Accountants' Report for the three years ended March 31, 2006 and the eight months ended November 30, 2005 and 2006 are presented. Further details of such waiver and exemption (including the conditions to the waiver and exemption) are set out in the section headed "Waivers from Compliance with the Listing Rules and the Companies Ordinance" in this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary of Technical Terms.”

“Accountants’ Report”	the accountants’ report dated May 7, 2007 of PricewaterhouseCoopers addressed to the Directors and the Joint Sponsors
“Affiliate”	any other person or entity, directly or indirectly, controlling or controlled by or under direct or indirect common control with a specified person or entity
“Application Form(s)”	white application form(s), yellow application form(s), pink application form(s) and green application form(s) or where the context so requires, any of them
“Articles of Association” or “Articles”	the articles of association of our Company, adopted on January 26, 2007 and as amended from time to time
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board of Directors” or “Board”	the board of Directors
“BOI”	Board of Investment in Sri Lanka, the governing body responsible for promoting industrial investment in Sri Lanka
“Business Day”	any day (other than Saturday and Sunday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
“BVI”	the British Virgin Islands
“Capitalization Issue”	the issue of 1,063,954,980 Shares to be made upon capitalization of an amount of HK\$1,063,955 standing to the credit of the share premium account of the Company as referred to under the paragraph “Written resolutions of the members of the Company passed on April 27, 2007” in Appendix VI to this prospectus
“Cayman Islands Companies Law”	the Companies Law (2004 Revision) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Broker Participant, a CCASS Custodian Participant or CCASS Investor Participant
“Citi”	Citigroup Global Markets Asia Limited
“Companies Act”	the BVI Business Companies Act, 2004 of the Laws of the BVI
“Companies Ordinance”	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Pacific Textiles Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on October 12, 2004 under the Cayman Islands Companies Law
“connected person”	has the meaning ascribed to it under the Listing Rules
“Deed of Indemnity”	the Indemnifiers have entered into a deed of indemnity with and in favor of us to provide certain indemnities, see “Statutory and General Information — Other Information — 1. Deed of Indemnity” for further details
“Director(s)”	the director(s) of our Company as at the date of this prospectus
“€” or “Euro”	the euro, the lawful currency of the member states of the European Union
“Estate Duty Ordinance”	the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong
“Fillattice-Pacific”	Fillattice-Pacific Limited (互力有限公司), a limited company incorporated under the Companies Ordinance on May 25, 2006. Solid Ally International Limited and Fill-HK Holding B.V. each owns 50% of Fillattice-Pacific
“FSTBC”	Fountain Set Textiles (B.C.) Limited, a limited liability company incorporated in British Columbia, Canada on April 2, 1993 and a subsidiary of Fountain Set (Holdings) Limited, a company listed on the Main Board of the Stock Exchange
“FSTO”	Fountain Set Textiles (Ontario) Ltd, a limited liability company incorporated in Ontario, Canada on May 28, 1996 and a subsidiary of Fountain Set (Holdings) Limited, a company listed on the Main Board of the Stock Exchange
“Global Offering”	the Public Offer and the International Placing
“Group”, “our Group,” “we” or “us”	the Company and, except where the context otherwise requires, all its subsidiaries
“HIBOR”	Hong Kong Inter Bank Offer Rate

DEFINITIONS

“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Indemnifiers”	Far East Asia Limited, Silver Bay International Holdings Limited, Fifth Element Enterprises Limited, Hollywood Pacific Limited, Top Strong Holdings Limited, Effective Approach Technology Limited and Mr. Lau Yiu Tong who have entered into the Deed of Indemnity
“INEDs”	the independent non-executive Directors
“International Companies Act”	the BVI International Business Companies Act (Cap. 291 of the Laws of the BVI). As of January 1, 2007, this act became amalgamated with the BVI Business Companies Act, 2004
“International Placing”	the conditional placing by the International Underwriters of the International Placing Shares with institutional and professional investors and other investors expected to have a sizeable demand for the Shares, as further described in the section headed “Structure of the Global Offering”
“International Placing Shares”	the 322,410,000 Shares initially being offered by us for subscription at the Offer Price under the International Placing, subject to adjustment as described in the section headed “Structure of the Global Offering”
“International Underwriting Agreement”	the international underwriting agreement relating to the International Placing and to be entered into between the Company and the International Underwriters on or around May 11, 2007
“International Underwriters”	the several underwriters of the International Placing listed in “Underwriting — International Underwriters”
“Joint Bookrunners”	Citi and Morgan Stanley (in alphabetical order)
“Joint Global Coordinators”	Citi and Morgan Stanley (in alphabetical order)
“Joint Lead Managers”	Citi and Morgan Stanley (in alphabetical order)
“Joint Sponsors”	Citi and Morgan Stanley (in alphabetical order)
“Latest Practicable Date”	April 25, 2007, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication

DEFINITIONS

“Lehan Resources Limited”	a wholly-owned subsidiary of the Company and a BVI Business Company incorporated under the Companies Act on March 28, 2006. It owns 100% of Pacific/Textured Jersey Ltd
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date on which dealings in the Shares first commence on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Macau”	Macau Special Administrative Region of the PRC
“Memorandum”	the memorandum of association of our Company adopted on January 26, 2007 and as amended from time to time
“MOP”	Macau Pataca, the lawful currency of Macau
“Morgan Stanley”	Morgan Stanley Dean Witter Asia Limited
“Nansha Tax Bureau”	Guangzhou Nansha Development Area National Administration of Taxation (廣州南沙開發區國家稅務局)
“Offer Price”	the final Hong Kong dollar price per Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed pursuant to the Public Offer and the International Placing, to be determined as further described in “Structure of the Global Offering — Pricing and Allocation” in this prospectus
“Offer Shares”	the Public Offer Shares (including the Shares initially available for subscription by eligible full-time employees of the Company or any of its subsidiaries on a preferential basis) and the International Placing Shares together, where relevant, with any additional Shares issued and allotted pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by us to the International Underwriters, exercisable by Citi on behalf of the International Underwriters (at the discretion of the Joint Global Coordinators) under the International Underwriting Agreement pursuant to which we may be required by the Joint Global Coordinators to issue up to an aggregate of 53,735,000 additional Shares (representing in aggregate approximately 15% of the number of Offer Shares initially available under the Global Offering) at the Offer Price, see “Structure of the Global Offering — Over-allotment Option”
“Pacific HK & China Holdings Ltd.”	a wholly-owned subsidiary of the Company and an international business company incorporated in the BVI under the International Companies Act on October 13, 2004. It owns 100% of Pacific Textiles Limited

DEFINITIONS

“Pacific SPM Holdings Ltd.”	a wholly-owned subsidiary of the Company and an international business company incorporated in the BVI under the International Companies Act on July 22, 2005. It holds 33% interest in SPM Automotive, an associated company of the Company
“Pacific Textiles Limited”	a wholly-owned subsidiary of the Company and a limited company incorporated in Hong Kong under the Companies Ordinance on March 22, 1994. It owns 100% of PPTL
“Pacific Textiles Overseas Holdings Ltd.”	a wholly-owned subsidiary of the Company and an international business company incorporated in the BVI under the International Companies Act on October 13, 2004. It owns 100% of Pacific Overseas Textiles Macao Commercial Offshore Limited
“Pacific Overseas Textiles Macao Commercial Offshore Limited”	a wholly-owned subsidiary of the Company established under the Laws of Macau on December 13, 2002
“Pacific Textured Jersey Holdings Ltd.”	a wholly-owned subsidiary of the Company and an international business company incorporated in the BVI under the International Companies Act on October 13, 2004. It owns 52% of PT Sri Lanka
“Pacific/Textured Jersey Ltd”	a wholly-owned subsidiary of the Company and a limited company incorporated under the Companies Act 1985 of the Laws of England and Wales on February 11, 2005
“Pearl River Delta”	a region in China occupying the low-lying areas alongside the Pearl River estuary where the Pearl River flows into the South China Sea that has developed into one of the leading economic regions and a massive manufacturing center of China
“PPTL”	Pacific (Panyu) Textiles Limited (互太(番禺)紡織印染有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on July 23, 1997 and a wholly-owned subsidiary of the Company
“PRC” or “China”	the People’s Republic of China, provided that except where the context requires, references in this prospectus to the PRC or China do not include Taiwan or Hong Kong and Macau
“Price Determination Date”	the date, expected to be on or around May 11, 2007 but no later than May 15, 2007 on which the Offer Price is fixed for the purposes of the Global Offering
“PT Sri Lanka”	Textured Jersey Lanka (Private) Limited, a limited liability company incorporated under the laws of Sri Lanka on July 12, 2000 is owned as to approximately 52% and 48% by Pacific Textured Jersey Holdings Limited and Linea Clothing (Private) Limited, respectively
“PT Sri Lanka SPA”	a sale and purchase agreement entered into between Pacific International Development Limited, Linea Clothing (Private) Limited and PT Sri Lanka dated June 3, 2004

DEFINITIONS

“Public Offer”	the offer of Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms
“Public Offer Shares”	the 35,824,000 Shares (subject to adjustment) being initially offered by us for subscription pursuant to the Public Offer. The Public Offer Shares include the 3,582,000 Shares initially available for subscription by eligible full-time employees of the Company or any of its subsidiaries, on a preferential basis
“Public Offer Underwriters”	the several underwriters of the Public Offer listed in the section entitled “Underwriting — Public Offer Underwriters”
“Public Offer Underwriting Agreement”	the public offer underwriting agreement dated May 4, 2007 relating to the Public Offer entered into between the Company, the Public Offer Underwriters and the Joint Global Coordinators
“Qualified Institutional Buyers” or “QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Regulation S”	Regulation S under the US Securities Act
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“Reorganization”	the corporate reorganization of the Group in preparation for the listing of Shares on the Stock Exchange, details of which are set out in the section headed “Corporate Structure and History”
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by the members of the Company, particulars of which are set out in the sections headed “Further information about the Company — Written resolutions of the members of the Company passed on April 27, 2007” and “Further information about the Company — Repurchase by the Company of its own Shares” in Appendix VI to this prospectus
“Rule 144A”	Rule 144A under the US Securities Act
“Rupees” or “Rs.”	Sri Lanka rupees, the lawful currency of Sri Lanka
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended and supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares issued by the Company, with a nominal value of HK\$0.001 each, and for which application has been made for the granting of listing of, and permission to deal in, on the Stock Exchange

DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company pursuant to the written resolutions of the members of the Company passed on April 27, 2007, the principal terms of which are summarized in the section headed “Share Option Scheme” in Appendix VI to this prospectus
“Sri Lanka”	Democratic Socialist Republic of Sri Lanka
“Solid Ally International Limited”	a wholly-owned subsidiary of the Company and a BVI business company incorporated in the BVI under the Companies Act on April 18, 2006. It holds 50% interest in Fillattice-Pacific, an associated company of the Company
“SPM Automotive”	SPM Automotive Textile Co., Ltd. (住江互太(廣州)汽車紡織產品有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on September 19, 2005. It is owned as to 55% by Suminoe Textile Co., Ltd. (住江織物株式會社), as to 33% by Pacific SPM Holdings Ltd., a wholly-owned subsidiary of the Company, and as to 12% by Marubeni Corporation (丸紅株式會社)
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into on or about the Price Determination Date between Fifth Element Enterprises Limited and Citi
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under section 2 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Track Record Period”	the period comprising the prior three financial years ended March 31, 2006 and the eight months ended November 30, 2006
“Underwriters”	the Public Offer Underwriters and the International Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the International Underwriting Agreement
“United States” or “US”	the United States of America, including its territories and possessions
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“US Securities Act”	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“White Form eIPO”	applying for Public Offer Shares to be issued in your own name by submitting applications online through the designated website at www.eipo.com.hk
“WTO”	the World Trade Organization

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this prospectus in connection with the Company. The meanings given to these terms may differ from meanings given to them by others in the industry.

“blind-dyeing”	A dyeing process driven by equipment and systems without the need for a traditional dye master
“brushed”	A finishing process used for knit or woven fabrics in which brushes are used to raise the surface to create a soft, fuzzy and comfortable texture
“chemical oxygen demand” or “COD”	The amount of oxygen consumed to completely chemically oxidize the organic water constituents to inorganic end products
“core-spun yarn”	A yarn made by twisting fibers around a filament or a previously spun yarn, thus concealing the core
“cotton”	A unicellular, natural fiber composed of pure cellulose
“cotton fabric”	Cloth which is made from cotton yarn knitted together
“cotton yarn”	Yarn produced from cotton fibers used in knitting and weaving. For the purposes of this prospectus, cotton yarn includes cotton polyester blend and other cotton blends
“double-knit”	Fabric produced on a circular-knitting machine equipped with two sets of latch needles situated at right angles to each other (dial and cylinder)
“ERP system”	An enterprise resource planning system, an accounting-oriented information system for identifying and planning the enterprise-wide resources needed to take, make, distribute, and account for customer orders
“fleece fabric”	Fabric with a thick, heavy body resembling sheep’s wool
“Four Point System”	A standard issued by the American Society for Testing and Materials in relation to fabrics
“functional fabrics”	Fabrics that incorporate value-added features such as moisture management, anti-microbial and anti-odor
“greige fabric”	An unprocessed form of fabric just off the loom or knitting machine
“interlock”	A type of double-knit fabric that has a smooth surface on both sides
“ISO”	International Organization for Standardization, a worldwide federation of national standards bodies from all over the world

GLOSSARY OF TECHNICAL TERMS

“ISO 14001”	The international standards of environmental management formulated by ISO Technical Committee 207 (ISO/TC 207)
“ISO 9001”	The international standards of quality management and quality assurance formulated by ISO Technical Committee 176 (ISO/TC 176) in 1987. The most recent upgraded version, ISO 9001:2000, was released in December 2000
“jacquard”	Fabric with special texture or design pattern
“jersey”	A plain light-weight single-knit fabric
“lacoste”	Knitted fabric with a raised pearl-look surface
“metric ton”	A unit of measure equal to 2,204.6 pounds
“Multi-Fibre Arrangement”	An arrangement that imposed textile and clothing quotas on imports from developing countries to industrialized countries that was phased out on January 1, 2005 by the WTO. Also known as Agreement on Textiles and Clothing (“ATC”)
“nylon”	A lightweight, quick-drying, stretchy, durable and easy-care synthetic fiber
“Oeko-Tex Standard 100”	A globally uniform testing and certification system for textile raw materials, intermediate and end products at all stages of production. There are four Oeko-Tex product classes based on a product’s intended use. The more intensively a product comes into contact with the skin, the stricter the human ecological requirements it must fulfill. Manufacturers are entitled to mark successfully tested products or article groups with the Oeko-Tex label and to advertise in other forms as long as it has been proven within the extensive laboratory tests that all components, including accessories, comply with the specified test criteria without exception. A certificate, once issued, is valid for one year and can be renewed as often as required
“polar-fleece”	Plain knitted fabric with both sides brushed and single side anti-pilling
“polyester”	A synthetic fiber with high strength and resistance to shrinking and stretching that is also quick drying and tends to have wrinkle resistance and crease retention, when either wet or dry. Polyester is used alone and in blends. It was one of the first fibers developed with durable-press features
“rib”	Plain double-knit fabric with good horizontal stretch and recovery

GLOSSARY OF TECHNICAL TERMS

“selvage”	The edge of a piece of fabric
“spandex”	The generic term for a synthetic stretch fiber that is known for its excellent stretch and recovery
“stretch fabrics”	Fabrics knitted with elastomers (spandex) to provide stretch properties
“striped”	Fabric of horizontal strip-pattern made by a series of colored yarns
“synthetic yarn”	Yarn produced from synthetic fibers
“Testex®”	An independent, neutral, Swiss textile testing institute which provides public services worldwide for companies engaged in textile and related fields
“velour”	Plain knitted terry fabric with a sheared surface on one side and a smooth surface on the reverse
“warp”	A sheet of yarns wound together on a beam for the purpose of weaving or warp knitting
“warp knit”	A knitting method that differs from weft knitting in that each needle loops its own thread. The needles produce parallel rows of loops simultaneously that are interlocked in a zigzag pattern.
“weft”	Yarn that runs crosswise during the knitting process
“weft knit”	Weft knitting uses one continuous yarn to form rows of loops across a fabric
“yarn”	A long, continuous length of interlocked fibers used to construct a fabric. As used in this prospectus, yarn includes cotton yarn and synthetic yarn

RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares in the Global Offering. You should pay particular attention to the fact that our business is located largely in China, where we are governed by a legal and regulatory environment that differs in many respects from that which prevails in other countries. Our business could be materially and adversely affected by any of the risks and uncertainties described below. The trading price of our Shares could decline due to any of these risks and uncertainties and you may lose all or part of your investment.

RISKS RELATING TO OUR COMPANY AND OUR BUSINESS

Many of the risk factors noted below are outside our control. Our operating results may fluctuate from period to period and our Share price may fluctuate and may not always accurately represent the long-term value of our Company. Moreover, fluctuations in our operating results may make it difficult to predict future results. Accordingly, period-to-period comparisons may not be meaningful due to the above reasons. No assurance can be given that our operating results will meet the expectations of market analysts or our investors. If we fail to meet their expectations, then our Share price will likely decline.

We operate in a highly competitive industry and we may lose market share if we do not compete successfully.

The fabric manufacturing business is highly competitive. We compete with large, vertically-integrated textile manufacturers and numerous smaller manufacturers. We face both domestic and foreign competitors, which include many companies that are larger in size and have greater financial resources than us. For weft knitted fabrics, we face direct competition from major players in the industry. In addition, we face competition in the warp knit sector even though competition is more fragmented.

The principal competitive factors that influence our customers' purchasing choices include service, product quality and price. The importance of these factors is determined by the needs of particular customers and the characteristics of particular products. In addition, we are exposed to the risk that companies, whether smaller, more specialized manufacturers or multinationals with greater financial resources, may enter our market in the future. There may also be significant consolidation in the textile industry. Furthermore, in order to gain market share, our competitors may price their products aggressively, resulting in more intense competition.

Increased competition may result in price reduction, reduced margins and loss of market share, any of which could materially and adversely affect our results of operations. Also, we may not compete effectively against current and future competitors. See "Business — Competition".

Our operating results are highly dependent on the fashion industry, and if we do not respond successfully to changes in fashion trends and customer demands, our operating results could be materially and adversely affected.

The supply and demand for particular fabric products change from season to season and from year to year, based principally on evolving fashion trends as well as other factors. Our success depends upon our ability to react quickly to changes in fashion trends that dictate customer demands and consumer preferences. In addition to fashion trends, customer demands may also be affected by increases in supply from competitors in the industry or deteriorating economic conditions. Hence, if we fail to respond rapidly and effectively to changes in fashion trends and customer demands, our operating results may be materially and adversely affected.

Fluctuations in the sales and profitability of certain products also affect our operating results. Historically, demand for our knitted fabric products and our sales volume has fluctuated during the year. The peak season is usually the last quarter of the calendar year. Should there be a material reduction in our sales during the peak season, our profitability may be adversely affected.

RISK FACTORS

Our operating results may be adversely affected by increases in the prices of yarn and other raw materials we use in our production processes.

Raw material costs comprised of cotton and synthetic yarn and the other raw materials required in the manufacture of fabrics. The prices for these can be volatile. Yarn costs represent a substantial majority of our total raw materials costs and cost of sales, comprising 70.9%, 69.5%, 66.2% and 68.2% of our total cost of sales for the three fiscal years ended March 31, 2004, 2005, and 2006 and the eight months ended November 30, 2006. Because cotton is an agricultural product, its supply and quality are vulnerable to poor weather, infestations and other forces of nature that can result in increases in cotton prices and consequently, the cost of yarn, which could have a material adverse effect on the results of our operations and financial condition.

We purchase raw materials, such as cotton and synthetic yarn and chemicals for pre-treatment, dyeing and after-treatment processes, from external suppliers. To meet our production and delivery schedules, we must timely obtain sufficient quantities of these raw materials. In respect of these raw materials, our operations may be vulnerable to changes in their supply and prices. We experienced an approximately HK\$1.7 per pound, or 16.0%, increase in average yarn prices during the 15 months from October 2003 to December 2004. For the eight months ended November 30, 2006, our average yarn price increased by HK\$0.9 per pound, or 7.6%, as compared to the eight months ended November 30, 2005. We can give no assurances that future increases in raw materials prices or changes in raw material supply will not materially and adversely affect our results of operations.

Increases in the cost of labor or disruption in the availability of labor may materially and adversely affect our operation, competitiveness and profitability.

We have maintained low production costs relative to our competitors in other regions partly due to the competitive labor costs in China and Sri Lanka. Labor costs in China are primarily a function of the demand for and supply of labor and other economic factors in China and the standard of living in China. Demand for labor has continued to grow in the Pearl River Delta and we may face labor shortages and increased labor costs in the future. We may also experience increased labor costs in Sri Lanka. If we experience labor shortages or increased labor costs, our operations, competitiveness and profitability could be adversely affected.

We generally do not enter into long-term contracts with our customers, which exposes us to uncertainty and potential volatility with respect to our revenue from period to period.

We typically only enter into short-term purchase orders with our customers. Our customers may cancel, reduce or defer purchase orders at will. Accordingly, the volume of our customers' purchase orders and our product mix may vary significantly from period to period, and it is difficult for us to forecast future order quantities. No assurance can be given that any of our customers will continue to place purchase orders with us in the future at the same level as in the current or prior periods, or at all. Furthermore, the actual volume of our customers' purchase orders may prove to be inconsistent with our expectations at the time we plan our expenditures. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

We depend on a few key garment manufacturers and apparel brand owners for a substantial portion of our sales and loss of, or a significant reduction in, sales to any of them could significantly reduce our revenues.

Our annual net sales are derived from a small number of our key garment manufacturing customers. For each of the financial years ended March 31, 2004, 2005 and 2006, and for the eight months ended November 30, 2006, our top five customers accounted for 26.9%, 28.6%, 30.4% and 32.2%, respectively, of our overall sales revenues. As described in "Business — Marketing and Sales", the owners of apparel

RISK FACTORS

brands who use our fabrics in their garments, although not our direct customers, are the principal drivers of our fabric sales. A few key brand owners indirectly accounted for a significant portion of our annual net sales. For the financial years ended March 31, 2004, 2005, 2006 and the eight months ended November 30, 2006, 36.0%, 46.8%, 53.7% and 50.8%, respectively, of our overall sales revenue was derived from five brand owners with the top brand owner accounting for 9.8%, 14.1%, 17.1% and 19.2%, respectively. We have had four to nine years of relationship with these brand owners. As explained in further details in “Business — Marketing and Sales — Marketing and customer relationships”, we do not directly contract with any of these brand owners, nor do they impose any conditions on us. Our operating results in the foreseeable future will likely continue to depend on relationships with a relatively small number of garment manufacturers and brand owners, as well as the ability of these brand owners to sell garments that use our fabrics. Our growth will depend on our ability to successfully manage our relationships with these key customers and brand owners. Failure to maintain good relationships with or a significant reduction in sales to any of them could significantly reduce our revenues.

Our future expansion plans are subject to risks and uncertainties, and may be difficult or expensive to manage.

We have expanded and intend to continue to expand our production capacity to capture market opportunities. Our existing production facilities have been operating at close to full capacity, and our ability to increase revenues, net income and cash flow depends upon continued expansion. Our expansion projects may not be completed on time or at all, or may not result in the anticipated benefits if completed. In the event such expansion and construction does not occur or is not timely completed, our future expansion plans, profitability and growth may be materially and adversely affected.

Managing our expansion may be time consuming and may distract management from focusing on existing operations. For example, our management may have to contend with a variety of challenges resulting from our expansion plans, including shortages of raw materials and labor, construction delays, the local government’s ability to compensate farmers dislocated from any newly acquired land, difficulties in ramping up production at new facilities or upgrading or expanding existing facilities, or in training an increasing number of personnel to manage and operate those facilities. Such challenges could make it difficult to implement our expansion plans successfully or in a timely manner, which could, among other things, adversely affect our ability to satisfy current customer demands and maintain product quality. Any failure to successfully manage our expansion may make it difficult to effectively compete, develop new products or take advantage of new markets.

Failure to secure additional funding in the future may materially and adversely affect our growth prospects and future profitability.

We plan to continue expanding our production and may also seek to enter into strategic joint ventures to explore and penetrate new fabric markets. Our expansion plans will require the purchase of new equipment, the construction of new facilities, the expansion of existing facilities and the hiring of new and retraining of existing employees, all of which will entail significant expenditures. We anticipate many significant capital expenditures over the next several years.

We expect to fund our capital expenditures through internally-generated cash flow, bank borrowings and the net proceeds we receive from the Global Offering and other debt or equity financing. Our ability to obtain financing through bank borrowings, or debt or equity financing will depend on our financial condition and results of operations, as well as on other factors that may be outside of our control, such as general market conditions, the performance of our industry, and political and economic conditions in the PRC, Sri Lanka or globally. We cannot assure you that we will be able to obtain adequate funding on acceptable terms or at all. If capital is unavailable, we may have to curtail our expansion plans, which could result in an inability to successfully implement our business strategy.

RISK FACTORS

Our strategy of acquiring complementary businesses and assets may not be successful.

As part of our business strategy, we have pursued, and intend to continue to pursue, selective strategic acquisitions of businesses and assets that complement our existing business. For example, we acquired a fabric manufacturing facility in Sri Lanka in 2004. We may make other acquisitions in the future if attractive opportunities arise. Acquisitions involve uncertainties and risks, including:

- potential ongoing financial obligations and unforeseen or hidden liabilities;
- failure to achieve the intended objectives, benefits or revenue-enhancing opportunities;
- costs and difficulties of integrating acquired businesses and managing a larger business; and
- diversion of resources and management attention.

Any such acquisitions may require significant capital investment, which would decrease the amount of cash available for working capital or other capital expenditures. In addition, if we issue additional equity securities to pay for acquisitions, we may dilute the value of your Shares. If we borrow funds to finance acquisitions, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends. Such acquisitions may also generate significant amortization expenses related to intangible assets. Our failure to address these risks successfully may have a material adverse effect on our financial condition and results of operations.

We depend on certain key personnel, and our business and growth prospects may be disrupted if we lose their services.

Our future success is dependent upon the continued service of our senior management, including Mr. Wan Wai Loi, our Chairman, Mr. Tsang Kang Po, our Vice Chairman, Mr. Lam Wing Tak, our Chief Executive Officer, Dr. Lam King Man, our executive Director, and Mr. Lam Hing Chau Leon, our Chief Financial Officer. Their talents, efforts, and leadership are crucial to our operations and financial performance. Any diminution in or loss of their services would have a material adverse effect on our business. No assurance can be given that we will not experience retention issues in the future. If one or more of our key personnel are unable or unwilling to continue in their present positions, or if they join a competitor or form a competing company, we may not be able to replace them easily and our business and future prospects may be materially and adversely affected. Furthermore, we may need to offer higher compensation and other benefits in order to attract and retain key personnel in the future. We cannot guarantee that we will be able to attract and retain the key personnel necessary to achieve our business objectives.

Our results of operations could be harmed if we fail to comply with environmental laws and regulations.

Our operations generate pollutants and wastes in various stages of the manufacturing process, including the fabric dyeing process. Our operations are subject to periodic inspections and the discharge, storage and disposal of such pollutants and waste are subject to environmental laws and regulations in the PRC and in Sri Lanka, including laws and regulations requiring clean-up of contamination and reclamation. Pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable.

Historically, environmental legislation in the PRC and Sri Lanka has, in many cases, been less stringently enforced than in some other countries such as the United States. However, more stringent standards may be introduced, stricter interpretations of existing laws may occur or enforcement may become more stringent in the PRC or Sri Lanka. Changes in the regulatory frameworks to which we are subject could result in actual costs and liabilities for which we have not provided. We could also become the subject of regulatory or legal action which could result in the imposition of fines or penalties, or, where the action is the result of alleged or actual environmental damage, the obligation to make costly

RISK FACTORS

expenditures to modify or replace existing equipment or facilities, install pollution control equipment or perform site clean-up. In April 2007, a third party contractor employed by us to carry out maintenance work at the Panyu manufacturing facility caused wastewater to be released from such facility into a nearby public river. We did not authorize the contractor to perform this act and we had tried to minimize the damage to the environment through the application of decolorant, which is a substance that is commonly used to treat wastewater. As a consequence of our contractor's act, we are required by the relevant PRC governmental authority to implement certain preventive measures at our facility. The estimated cost of these measures is not expected to exceed RMB200,000. See "Some of the brand owners we have relationships with are sensitive about environmental and social responsibility standards and any perception on their part that we may fail to meet those standards could adversely affect our operations and profitability" and "Appendix VI — Other information — 11. Environmental incident at our Panyu facility".

In addition, in the course, or as a result, of a regulatory or legal action concerning an act or omission that causes environmental damage, government authorities could issue an order that may halt or cease part or all of the production at a production facility that has violated environmental standards. If production at one or more of our facilities were partially or wholly prevented due to this type of sanction, our business and operating results could be materially and adversely affected.

We can give no assurance that we will not be in violation of any environmental law or regulation in the future. Moreover, additional environmental matters may arise in the future where no problem is currently known or at sites that we may acquire.

Failure to obtain required environmental approvals could lead to the suspension of our expansion projects at certain production facilities.

Under PRC laws and regulations, all construction projects must go through certain environmental evaluation processes. At the project feasibility stage, the entity seeking to undertake a construction project must submit, among other things, an environmental evaluation report, an environmental impact report sheet or an environmental impact registration form for governmental approval. In addition, upon completion of the construction project, the governmental administration authority responsible for environmental protection must approve the adequacy of the environmental control systems utilized in the facility. A facility may not commence operations without such approvals. If we fail to obtain these approvals for our expansion projects, we may not proceed with the expansion. If we were to proceed with the expansion without the required approvals, we could be subject to regulatory or legal action that could result in the imposition of fines or penalties. Also, in the course or as a result of such a regulatory or legal action, PRC authorities could issue orders requiring that operations cease at the facilities that do not have the required approvals. The cessation of operations at any of our facilities could have a material and adverse effect on our business, results of operations and financial condition.

Failure to obtain required construction permits could lead to the imposition of penalties.

At our Panyu facility, we are in the process of constructing and are in the completion handover process for a central warehouse, a workshop, a canteen/office building, Phase III of our water treatment plant and Phase IV of our power plant. We have obtained the relevant permits for these construction projects, but the Construction Works Commencement Permit for the central warehouse has expired. As a result, we are in the process of applying for an extension. In the event our application is denied, we may be subject to penalties imposed by the relevant authorities in the PRC. Moreover, although the relevant laws and regulations do not set out specific penalties for continuing construction without a valid permit, the local Panyu Construction Bureau could impose fines in accordance with the Administrative Rules on the Construction Works Commencement Permits. We are using a portion of the workshop and canteen/office building without a formal completion handover process for which we may be subject to penalties. According to the Administrative Ordinance on Construction Quality (《建設工程質量管理條例》), we may be required to stop using the buildings until the formal completion handover procedure is completed, and/or to pay a fine to the relevant authorities of up to RMB2.6 million, and persons held liable for such violation may be required to pay a fine to the relevant authorities ranging from 5% to 10% of the fines imposed on us. Furthermore, we did not obtain a Memorandum Note on Building Construction and Utilities Facilities for one building, for which we could be subject to a fine ranging from RMB200,000 to RMB300,000.

RISK FACTORS

Insufficient energy supply or increasing energy costs could adversely affect our business, financial condition and results of operations.

Our production processes in China and Sri Lanka require a continuous supply of energy, electricity and steam. Interruptions to our power supply or increases in our energy costs could disrupt our operations and have a material adverse effect on our financial condition and results of operations.

At our Panyu facility, we operate a cogeneration power plant for our Panyu facility, comprising four coal-fired turbines. We obtain coal for this plant from domestic sources in the PRC, and are exposed to disruptions in supply and price increases. We have not entered into long-term coal supply contracts. Our Panyu power plant may also be subject to potential unscheduled power interruptions for maintenance or other reasons.

At our production facility in Sri Lanka, we primarily satisfy our energy needs from the public power supply network, and are subject to potential power disruptions and price increases. We have recently experienced an increase in energy prices in Sri Lanka from Rs. 7 to Rs. 8 per unit cost (approximately HK\$0.5 to HK\$0.6), an increase of approximately 14% over the prior year. In addition, an additional cost of 20% of the electricity expenses has been imposed since September 2006. While we also maintain back-up diesel generators at our Sri Lanka facility, these cannot supply our energy requirements over long periods of time.

Any significant power disruptions or a significant increase in our energy costs could have a material adverse effect on our business, financial condition and results of operations.

Non-compliance with PRC employee social welfare contribution regulations could lead to the imposition of fines or penalties.

In accordance with relevant PRC national labor laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees, including migrant workers (農民工). Such schemes include pension insurance, medical insurance, unemployment insurance, birth insurance, job-related injury insurance and housing provident fund contributions. Existing PRC national laws and regulations are more stringent than the requirements of local governments with respect to pension insurance, medical insurance, unemployment insurance and birth insurance. We have not fully complied with the national social insurance requirements with respect to medical insurance, unemployment insurance, pension insurance and birth insurance in accordance with the Provisional Rules on Social Welfare Collection and Contribution (《社會保險徵繳暫行條例》) and the Interim Rules on Birth Insurance for Employees of an Enterprise (《企業職工生育保險試行辦法》) for our migrant workers. Currently, we are not required under local practice to make contributions to medical insurance, unemployment insurance, pension insurance and birth insurance for migrant workers. Should the local authorities require such contributions in accordance with national requirements in the future and we fail to do so within a stipulated time, a daily fine of 0.2% for any delinquent payments may be imposed on us. The management may also be fined RMB1,000 to RMB10,000 for failure to make the required contributions. For further details, see “Business — Employees — Social Welfare”. Although we have not received any orders to rectify the non-compliance, we can give no assurance that we will not be subject to such an order in the future.

We have made accumulated provisions in the sum of HK\$45 million as at November 30, 2006 in our accounts for the difference between the amounts we have paid and the amounts that would be payable in the event the national requirements were strictly applied. This amount does not take into account any delinquency payments or fines and thus, we could be subject to fines or other penalties for which we have not fully provided.

We are not aware of any employee complaints regarding payment of pension insurance, medical insurance, unemployment insurance, birth insurance, job-related injury insurance and housing provident fund contributions and have not received any relevant legal documentation from a labor disputes arbitration committee or the People’s Court relating to disputes about payment of these contributions. However, we can give no assurance that there are no such claims or that such claims will not be brought against us in the future, and that we will not be required to pay such contributions or any related damages in the future.

RISK FACTORS

Our insurance coverage may not be sufficient to cover the risks related to our operations and losses.

Our operations are subject to hazards and risks associated with our manufacturing operations, which may cause significant harm to persons or damage to property. We can give no assurance that our operations will be free of accidents or that our insurance policies will be adequate to cover all losses incurred. Losses incurred and associated liabilities may have a material adverse effect on our results of operations if such losses or liabilities are not covered by our insurance policies.

If our reputation is harmed, our business and operating results may suffer.

We believe that our reputation for product quality, product innovation and customer service has contributed significantly to the success of our business, as most of our new accounts come through word of mouth. Defects in our products, failure to meet delivery schedules or other factors could damage our reputation and business relationships, and consequently lead to lower revenue and higher cost. Over the course of our operations, we may pay our customers for compensation claims relating to product defects and certain other costs incurred by the customers such as laboratory testing fees. While product defects are a normal part of our business, should there be a material increase in the number of claims, our reputation may be harmed and we may have to pay significant amounts to customers as compensation and our results of operations may be adversely affected. As our market becomes increasingly competitive, maintaining our reputation and enhancing our competitive position may be increasingly difficult.

Some of the brand owners we have relationships with are sensitive about environmental and social responsibility standards and any perception on their part that we may fail to meet those standards could adversely affect our operations and profitability.

Apparel brand owners have become increasingly sensitive about their reputations with respect to environmental and social responsibility. Accordingly, brand owners (including some with whom we have relationships) may require garment manufacturers to fulfill certain environmental standards, corporate social responsibility standards and/or social responsibility standards set forth by governmental or non-governmental labor organizations. The garment manufacturers, who are our direct customers, may impose these standards on us. In the event that we fail to fulfill these standards or if we are publicly perceived to have failed to fulfill those standards or if we are otherwise publicly associated with poor environmental or social responsibility standards, we may experience decreased business which could adversely affect our operations and profitability.

In April 2007, a third party contractor employed by us caused wastewater to be released from our Panyu manufacturing facility. We have received a number of inquiries from our customers in connection with this incident. One customer had sent a technician to inspect the water treatment plant at such facility to verify that we are in compliance with the applicable environmental standards. We cannot assure you that future incidents of this nature and any future failures to comply with environmental laws (whether directly by us or through the acts of third parties contracted by us) will not trigger any claims from our customers or otherwise cause the relationships we have with our customers to deteriorate. If such relationships were to deteriorate, our business could be materially and adversely affected and our business, financial condition and results of operations would suffer. See “Our results of operations could be harmed if we fail to comply with environmental laws and regulations” and “Appendix VI — Other information — 11. Environmental incident at our Panyu facility”.

The fabric manufacturing business has been and is expected to remain seasonal.

The timing of our business is determined in part by the major annual fashion seasons. As a result, we generally experience increased production in the winter months and decreased production in the spring months. Due to these seasonal fluctuations in production, comparisons of sales and results of operations between different periods within a financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as accurate indicators of our performance. Any seasonal fluctuations reported in the future may have a negative effect on our cash flow and working capital.

RISK FACTORS

Natural disasters or political instability may result in significant damage to our facilities and disrupt our business operations.

Our products are manufactured at production facilities located in the PRC and Sri Lanka. Natural disasters such as fire, severe weather, flood, earthquake or other acts of God, or political instability may cause significant damage to our facilities and disrupt our business operations. For example, in 2004, tsunamis triggered by an earthquake in the Indian Ocean caused major damage to the southern and northeastern parts of Sri Lanka, resulting in deaths and displacement of a large segment of the population. In addition, there is fighting in Sri Lanka between the Government and the Tamil Tigers, a separatist group which seeks the formation of a separate state. Although these events have not directly impacted our business operations, future natural disasters or political unrest may disrupt our operations.

Furthermore, material damage to, or the loss of, our production facilities due to natural disasters or political instability may not be adequately covered by the proceeds of our insurance coverage. Furthermore, any one or more of these events could significantly disrupt our operations by, among other things, delaying or preventing production and product shipment, imposing substantial uninsured repair or replacement costs, impeding the ability of personnel to report to work, or limiting our ability to source raw materials. The time required to rectify such problems could be lengthy, and could result in significant increases in costs or reduction in sales.

Any future outbreak of a contagious disease, such as avian influenza, may have a negative impact on our business and operating results.

Several countries in Asia and Europe have reported cases of avian influenza, or bird flu. While there have been no reported cases of human-to-human transmission of bird flu in the PRC or Sri Lanka, no assurance can be given that the virus will not mutate into a strain capable of human-to-human transmission. Any outbreak of an epidemic disease, such as bird flu or any other contagious disease, could have a material adverse effect on our financial condition and results of operations. An outbreak of a contagious disease could adversely affect consumer demand for our products, our ability to adequately staff our operations and the distribution networks for our products, as well as the general level of economic activity in Asia and elsewhere. For example, in the first half of 2003, our sales were adversely affected by the outbreak of severe acute respiratory syndrome, or SARS.

Failure to obtain or renew licenses, certificates and permits required in the production and sale of fabrics may have a negative impact on our business and operating results.

We possess all necessary licenses, certificates and permits for the production and sale of our present products in the PRC and in Sri Lanka. However, we can give no assurance that we will be able to renew such licenses, certificates or permits upon their expiration. In addition, eligibility criteria for these licenses, certificates, and permits may change from time to time and additional licenses, certificates and permits may be required and higher compliance standards may have to be observed. In the event of the introduction of any new laws and regulations or changes in the interpretation of any existing laws and regulations that increase compliance costs for us or prohibit or make it more expensive for us to continue with the operation of any part of our business, we may have to restrict our operations and our business and operating results could be adversely affected.

Our business benefits from certain tax and other government incentives. Expiration of, or changes to, these incentives could have a material adverse effect on our operating results.

The PRC government provides tax incentive schemes to foreign-owned enterprises. In accordance with the applicable tax regulations as a wholly-owned foreign enterprise, our subsidiary PPTL and our associated company SPM Automotive are entitled to a two-year income tax exemption period and a 50% reduction in enterprise income tax for the next three years. This tax scheme commenced in the first

RISK FACTORS

profitable year after offsetting all unexpired tax losses carried forward from previous years and, for PPTL, expired on December 31, 2005. Since then, we have enjoyed a 50% income tax reduction in accordance with applicable tax regulations, subject to annual approval by the Nansha Tax Bureau. We received approvals for such a reduction for calendar years ended December 31, 2006 and December 31, 2007. If there are any adverse changes in the PRC's tax laws, our profitability may be negatively affected.

Additionally, the new PRC Enterprise Income Tax Law was promulgated by the National People's Congress on March 16, 2007 and will become effective on January 1, 2008. The new law imposes a single income tax rate of 25% on most domestic enterprises and foreign invested enterprises. It contemplates various transition periods for existing preferential tax policies. Since the new law only provides general principles and provisions, the PRC State Council is entitled to formulate and implement rules but the timing for the issuance and promulgation of such rules are uncertain. According to this new PRC Enterprise Income Tax Law and in accordance with the rules and regulations to be issued by the PRC State Council, we may be subject to the uniform tax rate of 25% within five years from the implementation date of this law. While we have not undertaken a detailed analysis of the potential impact of the new PRC Enterprise Income Tax Law on our results of operation, the enactment of the PRC Enterprise Income Tax Law could adversely affect our financial condition and results of operations. Moreover, our historical operating results may not be indicative of our operating results for future periods due to the early expiration of our current tax exemption.

The BOI provides tax incentives to promote industrial investments. Our Sri Lanka operation currently enjoys full income tax exemption in accordance with the Board of Investment Law for a period of fifteen years starting from September 12, 2001. The exemption is subject to the ongoing conditions that at least 90% of our production is exported directly or indirectly and we employ more than 100 employees. Upon expiration of the tax exemption period, we will be assessed a 15% tax on our income and profits for a period of five years. If we fail to obtain the certificate or if there are changes to Sri Lanka's tax policies or regulations, our results of operations may be negatively affected.

Our corporate and operational structure involves transfer pricing transactions. Changes to relevant laws and regulations or the PRC tax authorities' policy or approach towards transfer pricing may adversely affect our financial results.

Our subsidiary, PPTL, currently engages in transfer pricing transactions. On November 10, 2004, the Nansha Tax Bureau issued an interim report to PPTL for transactions with its related parties for the years of assessment of 2001 to 2003 and assessed upon PPTL an additional tax liability of approximately RMB50.5 million. We ultimately reached an agreement with the Nansha Tax Bureau whereby its final report, issued on February 28, 2005, reduced the additional tax liability to approximately RMB7.6 million. For more details, see "Financial Information — Results of Operations — Taxation". There is no guarantee that in the future PRC tax authorities will not review or challenge our transfer pricing transactions. Furthermore, relevant laws and regulations or the PRC tax authorities' policy or approach towards transfer pricing may change in the future. Should we be subject to any additional assessments, either in respect of past transactions and transactions to be conducted in the future, our financial results may be adversely affected.

RISK FACTORS

Import quotas, higher tariffs or other trade barriers imposed by the United States, the European Union or other WTO member nations on the textile industry may have a material adverse impact on our results of operations.

After the phase-out of the Multi-Fibre Arrangement as of January 1, 2005, which imposed import quotas on textiles and garments from developing countries, the United States and the European Union imposed import quotas on textiles and garments from China to reduce the impact of an influx of Chinese textile and apparel imports. Under current WTO rules, the United States and other WTO members may continue to impose tariffs on textile and apparel imports and to implement “safeguards” against specific categories of such imports to prevent domestic market disruptions. The PRC government settled the trade disputes with both the United States and European Union through separate memoranda of understanding that prescribed annual quotas and caps on annual increases of quotas on 21 and 10 categories, respectively, of Chinese textile and apparel imports into the United States and European Union, with any excess subject to impounding, unless otherwise permitted.

In September 2006, the PRC Ministry of Commerce promulgated the Provisional Administrative Measures on Textile and Apparel Exports (《紡織品出口管理辦法(暫行)》). Under this system, effective September 18, 2006, China-based textile manufacturers exporting to countries or regions that have imposed restrictions on Chinese textile and apparel exports or entered into bilateral agreements with China regarding temporary arrangements relating to the quantity of their imports of China-made textiles and apparel, are required to apply for a license in order to export the affected categories of textiles or apparel products to these markets. Currently, the rules apply to the memorandum of understanding entered into between the European Union and China as well as between United States and China.

While our PRC operations are not directly impacted by these quotas because we sell our fabrics largely to garment manufacturers outside the United States and European Union, there is no assurance that other countries or multi-national organizations will not introduce similar restrictions on our products in the future. If such trade restrictions were introduced, our business and results of operations could be adversely affected. Moreover, garment manufacturers who are our customers could be negatively impacted as they export their products to the United States and European Union. Hence, if our customers are adversely impacted by the imposition of new quotas, higher tariffs and other trade restrictions or renewal of current trade restrictions, particularly by the United States and the European Union, demand for our products may decline and our results of operations may be adversely affected.

Appreciation or devaluation of the Renminbi could materially affect our financial condition and results of operations.

The value of the Renminbi is subject to changes in the PRC government’s policies and depends to a large extent on economic and political developments in the PRC and around the world. On July 21, 2005, the People’s Bank of China (“PBOC”), announced that the exchange rate of US dollar to Renminbi would be adjusted from US\$1 to RMB8.27 to US\$1 to RMB8.11, and it ceased to peg the Renminbi to the US dollar. Instead, the Renminbi is now pegged to a basket of currencies adjusted based on changes in market demand and supply under a set of systematic principles. As of April 2, 2007, this change in policy has resulted in an approximately 6.5% appreciation of the RMB against the US dollar since July 2005. There is significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the US dollar.

We receive a significant proportion of our revenue in US dollars and Hong Kong dollars, while a substantial majority of our operating expenses are denominated in Renminbi. Our reporting currency is Hong Kong dollars, which are pegged to US dollars.

RISK FACTORS

The Renminbi may be revalued further against the US dollar or other currencies, or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the US dollar or other currencies, any of which could give rise to uncertainties in our financial condition and results of operations. Any appreciation of Renminbi increases our cost of production, and any devaluation of Renminbi may adversely affect the value of our net assets in foreign currency terms, as well as our ability to service our foreign currency obligations. In addition, to the extent that we need to convert Hong Kong dollars we receive from this offering into Renminbi for our operations and expansion of production facilities, and because the Hong Kong dollar is pegged to the US dollar, appreciation of the Renminbi against the US dollar would have an adverse effect on the Renminbi amount we receive from the conversion.

Investors may experience difficulty in effecting service of legal process and enforcing judgments against us and our directors and management.

Substantially all of the Group's assets are located in the PRC. PRC law provides for the recognition and enforcement of Hong Kong judgments only in certain limited circumstances. Furthermore, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts in the United States, the United Kingdom or other Western countries, Japan or Singapore. As a result, recognition and enforcement in the PRC of judgments by a court of a foreign jurisdiction in relation to any matter not subject to a binding arbitration provision may be difficult. Therefore, it may be difficult for investors to enforce judgments against the assets of the Company in the PRC.

In addition, although most of the officers and directors of the Company are currently resident in Hong Kong, most are citizens of other jurisdictions. It may be difficult for investors to effect service of process upon the officers or directors of the Company in the event they leave Hong Kong. Hence, claims against the officers and directors of the Company may need to be pursued in foreign jurisdictions which may be difficult and expensive.

Investors may face difficulties in protecting their interests because we are incorporated under Cayman Islands law and these laws may provide less protection to minority shareholders than the laws of Hong Kong.

Our corporate affairs are governed by our Memorandum and Articles and by the Cayman Islands Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences may mean that our minority shareholders may have less protection than they would have under the laws of Hong Kong. For example, the Cayman Islands does not have a statutory equivalent of section 168A of the Companies Ordinance that provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company's affairs. A summary of the Cayman Islands Companies Law on "Protection of Minorities" is set forth in the section headed "Summary of the Constitution of the Company and the Cayman Islands Companies Law" in Appendix V to this prospectus.

RISKS RELATING TO THE PRC

Changes in political and economic policies may have a negative impact on our operations.

The majority of our assets are located in the PRC. A substantial majority of our revenues is generated from products manufactured in our facilities in the PRC. Our results of operations and prospects are affected, to a significant degree, by economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement in allocation of resources, capital investment, level of development, growth rate and control of foreign exchange.

RISK FACTORS

Historically, the PRC economy has been centrally planned, through a series of economic plans promulgated and implemented by the PRC government. Since 1978, the PRC government has been promoting economic and political reforms. These reforms have brought about rapid economic growth and social progress in the PRC and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. Although we have benefited from some of the economic reforms implemented by the PRC government, government control of the economy nevertheless may have a negative effect on us. For example, the PRC government has historically placed stringent controls on textile exports. However, since becoming a member of the WTO, it has phased out export quota controls on cotton textiles while retaining quota controls on the export of cotton. It is difficult to predict how future policies will affect the fabric industry. The PRC government's continued control over exports of goods could materially and adversely affect our business.

Moreover, we cannot assure you that the PRC government will continue to pursue economic reforms. A variety of policies and other measures that could be taken by the PRC government to regulate the economy could have a negative impact on our business, including the introduction of measures to control inflation or reduce growth, changes in the rate or method of taxation or the imposition of additional restrictions on currency conversions and remittances abroad. Our business, financial condition and results of operations may be adversely affected by the PRC government's political, economic and social policies and regulations.

Macroeconomic measures taken by the PRC government may cause the PRC economy to slow down.

In response to concerns relating to China's high rate of growth in industrial production, bank loans, fixed investments and money supply, the PRC government has expressed its intention to take measures to slow economic growth. Among the measures that the PRC government has already taken are restrictions on bank loans. On April 27, 2006, PBOC announced an increase in the benchmark one-year lending rate from 5.58% to 5.85%. On August 18, 2006, PBOC further announced a 0.27% increase in the benchmark one-year deposit and lending rates. Increases in interest rates or the imposition of other anti-growth economic policies could have a material and adverse effect on our garment manufacturing customers who operate in China, and subsequently, on demand for our products and on our results of operations.

Changes and uncertainties in the PRC legal system may have an adverse impact on our operations.

The PRC is still in the process of developing a comprehensive statutory framework. Since 1979, the PRC government has established a commercial law system and significant progress has been made in promulgating laws and regulations relating to economic affairs and matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many areas. Consequently, developments and changes in PRC laws and regulations, including their interpretation and enforcement, may have a negative effect on our business, results of operations and financial condition.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and an active trading market may not develop.

Prior to the Global Offering, there has been no public market for our Shares. The Offer Price for the Shares will be determined by the Joint Sponsors and us. The Offer Price may not be indicative of the price at which the Shares will trade following the completion of the Global Offering. Although the Joint Sponsors have indicated that they intend to make a market in the Shares, they are not obligated to do so

RISK FACTORS

and any such market making will be subject to the limits imposed by applicable law and may be interrupted or discontinued at any time without notice. Accordingly, we cannot predict whether an active or liquid trading market for the Shares will develop or be sustained. Consequently, investors may be required to hold their Shares for an indefinite period of time or sell them for an amount less than the price paid.

The trading volume and price of our Shares may fluctuate.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, strategic alliances or acquisitions, industrial or environmental accidents suffered by us, loss of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation or fluctuations in the market prices for our products or raw materials could cause large and sudden changes in the volume and price at which our Shares will trade. In addition, the Stock Exchange and other securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of the Shares.

Investors will experience dilution of pro forma adjusted net tangible asset value because the Offer Price is higher than our net tangible book value per Share and may also experience dilution if we issue additional Shares in the future.

Because the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in the pro forma net tangible asset value per Share. We may consider offering and issuing additional Shares in the future. We may also issue additional Shares pursuant to our Share Option Scheme. Purchasers of our Shares may experience dilution in the net tangible asset value per share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

Dividends paid in the past may not be indicative of the amount of future dividend payments or our future dividend policy.

In the year ended March 31, 2006, we paid total dividends of HK\$941.2 million, to the then-shareholders of the Group. In the year ended March 31, 2005, dividends of HK\$127.7 million were paid to the then-shareholders prior to our Reorganization. On April 26, 2007, the Board of Directors declared a special dividend in the amount of HK\$780 million payable to our existing shareholders. The dividend payment will be financed by means of a new bank loan and internal resources. For more details, see “Financial Information — Dividend Policy and Distributable Reserves”. No assurance can be given that dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. Therefore, the past dividend payments referred to above should not be used as reference for our dividend policy, nor as a basis to forecast the amount of dividends payable in the future.

Significant stock ownership by Directors could result in their substantial influence over our future direction.

Upon completion of the Global Offering, our Directors will control approximately 75% of the combined outstanding voting power of all Shares. As a result, such persons will be able to exert substantial influence with respect to matters submitted to a vote of holders of Shares, including election of Directors.

RISK FACTORS

Future sales of substantial amounts of our Shares in the public market could adversely affect the prevailing market price of our Shares.

Except for the Shares issued in the Global Offering or pursuant to any share option scheme of any member of our Group, we have agreed with the Joint Sponsors not to issue any of our Shares or securities convertible into or exchangeable for our Shares until the date which is six months from the Listing Date. See the section headed “Underwriting — Underwriting Arrangements and Expenses — Undertakings” in this prospectus for a more detailed discussion of restrictions that may apply to future sales of our Shares by us.

After these restrictions lapse, the market price of our Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, the issuance of our new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. This could also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate.

Investors should not place undue reliance on industry and market information and statistics from official government publications contained in this prospectus.

This prospectus contains information and statistics derived from official government publications, including but not limited to information and statistics relating to the PRC, Sri Lanka and the fabric industry and markets. We cannot ensure the accuracy of such information and statistics and such information may not be consistent with other information publicly available or available from other sources. Prospective investors should not place undue reliance on any of such information and statistics contained in this prospectus.

Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus.

There has been coverage in the media regarding the Global Offering and our operations. Further, the May 3, 2007 editions of the Apple Daily and Ming Pao contained articles which reported on and included certain allegations about non-compliance with environmental regulations by our Panyu manufacturing facility and an environmental incident at our Panyu manufacturing facility. For additional details regarding such incident, please see “Other Information — 11. Environmental incident at our Panyu facility” in Appendix VI to this prospectus.

We do not accept any responsibility for the accuracy or completeness of the information and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any of the information in press articles or other media coverage.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including, but not limited to, the risk factors described in this prospectus. These forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- future developments, trends and competition in the global textile industry;
- products under development or planning;
- our strategy, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend distribution plans;
- our future financial condition and operations;
- the amount and nature of, and potential for, future development of our business;
- general economic conditions in the United States, Europe, the PRC, Sri Lanka and elsewhere;
- our forecast financial information regarding our business; and
- changes in the regulatory environment and operating conditions in the markets in which we operate.

In some cases we use words such as “believe,” “seek,” “intend,” “anticipate,” “project,” “forecast,” “plan,” “potential,” “will,” “may,” “should,” “going forward,” “expect” and other similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this prospectus, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements.

Furthermore, these forward-looking statements merely reflect our current view with respect to future events and are not a guarantee of future performance. Our financial condition may differ materially from the information contained or implied in the forward-looking statements as a result of a number of factors, including, but not limited to, factors disclosed under “Risk Factors” and elsewhere in this prospectus and the following:

- demand for new textile products, particularly in the United States and Europe;
- changes in the general operating environment of the global textile and fabric manufacturing industry;
- general economic, market and business conditions in the United States, Europe, the PRC, Sri Lanka and globally;
- the effects of competition on the demand for and the prices of our products;
- the development of new products or technologies affecting our current and future business;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices; and
- other factors beyond our control.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES ORDINANCE

THE LATEST FINANCIAL PERIOD REPORTED ON BY THE REPORTING ACCOUNTANTS REQUIRED UNDER THE LISTING RULES AND THE COMPANIES ORDINANCE

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a statement as to the gross trading income or sales revenue during the three years preceding the issue of this prospectus.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results of the Company for each of the three financial years immediately preceding the issue of this prospectus.

According to Rule 4.04(1) of the Listing Rules, the Company is required to include in this prospectus an Accountants' Report covering the consolidated results of the Group in respect of each of the three financial years immediately preceding the issue of this prospectus.

The Accountants' Report for the three years ended March 31, 2006 and the eight months ended November 30, 2006 including the results for the eight months ended November 30, 2005 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus is issued within a short period of time after March 31, 2007, the Accountants' Report has not been prepared for the full year ended March 31, 2007 as it would be unduly burdensome for the Company to do so.

Because of such circumstances, an application has been made to the SFC for a certificate of exemption from strict compliance with paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance in relation to the inclusion of the Accountants' Report for the full year ended March 31, 2007 in this prospectus on the ground that it would be unduly burdensome for the Company to do so and a certificate of exemption has been granted by the SFC under section 342A(I) of the Companies Ordinance.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules, and such waiver has been granted by the Stock Exchange subject to the conditions that (i) this prospectus will be issued on or before May 7, 2007; and (ii) the Listing Date is on or before June 30, 2007 on the grounds that it would be unduly burdensome for the Company to do so.

Our Directors have confirmed that they have performed sufficient due diligence on the Group to ensure that there has been no material adverse change in the financial and trading positions or prospects of the Group since November 30, 2006, and there has been no event since November 30, 2006 which materially affected the information shown in the Accountants' Report set out in Appendix I to this prospectus. Our Directors believe that the Accountants' Report set out in Appendix I to this prospectus provides sufficient information that is reasonably necessary for the public to make an informed assessment of the financial position of our Group.

CHAPTER 14A OF THE LISTING RULES

The Group has entered into and is expected to continue certain transactions which will constitute non-exempt continuing connected transactions of the Company under the Listing Rules upon the Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, waivers in relation to certain continuing connected transactions between our Group and certain connected persons under Chapter 14A of the Listing Rules. For further details in this respect, please see "Connected Transactions".

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Public Offer, which forms part of the Global Offering. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Public Offer.

The listing of our Shares on the Stock Exchange is sponsored by the Joint Sponsors. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Global Offering is managed by the Joint Global Coordinators.

The International Placing is expected to be underwritten by the International Underwriters.

For further information about the Underwriters and the underwriting arrangements, see the section headed “Underwriting” in this prospectus.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by the Company, the Joint Sponsors, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering,” and the procedures for applying for Public Offer Shares are set out in the section headed “How to Apply for Public Offer Shares” and on the relevant Application Forms.

SELLING RESTRICTIONS

Each person acquiring the Offer Shares will be required to confirm, or by their acquisition of the Offer Shares will be deemed to confirm, that such person is aware of the restriction on offers or sales of the Offer Shares described in this prospectus and that such person is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such other offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Prospective applicants for Offer Shares should consult their financial advisors and take legal advice as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

United Kingdom

No offer of Offer Shares has been made or will be made to the public in the United Kingdom within the meaning of Section 102B of the Financial Services and Markets Act 2000, as amended (the “FSMA”), except to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by us of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority (the “FSA”). Each Underwriter: (i) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which Section 21 of FSMA does not apply to us; and (ii) has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom.

United States

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered, sold, pledged or transferred within the United States, except to qualified institutional buyers in accordance with Rule 144A or another exemption under the US Securities Act, or outside the United States in accordance with Regulation S.

The Offer Shares are being offered and sold within the United States to qualified institutional buyers in reliance on Rule 144A or another exemption under the US Securities Act, and outside the United States in reliance on Regulation S. In addition, until 40 days after the later of the commencement of the Global Offering and the completion of the distribution of the Offer Shares, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the Global Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an exemption from, or in a transaction not subject to, such requirements or in accordance with Rule 144A.

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this prospectus or the Offering Circular relating to the International Placing. Any representation to the contrary is a criminal offense in the United States.

Canada

The Offer Shares may not be offered or sold, directly or indirectly, in any province or territory of Canada or to or for the benefit of any resident of any province or territory of Canada, except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer or sale is made and therein only by persons permitted under applicable laws to sell the Offer Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Offer Shares are subscribed or purchased under Section 275 by a relevant person which is:

- (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Offer Shares under Section 275 except:

- (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA;
- (2) where no consideration is given for the transfer; or
- (3) by operation of law.

PRC

This prospectus does not constitute a public offer of the Offer Shares, whether by way of sale or subscription, in the PRC. The Offer Shares are not being offered or sold and may not be offered or sold directly or indirectly in the PRC.

European Economic Area

In relation to each member state of the European Economic Area (the EEA) which has implemented the Prospectus Directive 2003/71/EC (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive 2003/71/EC is implemented in that Relevant Member State (the “Relevant Implementation Date”), no offer of the Offer Shares may be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive 2003/71/EC, except offers of the Offer Shares may be made, with effect from and including the Relevant Implementation Date, to the public in that Relevant Member State at any time: (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43.0 million and (3) an annual net revenue of more than €50.0 million, as shown in its last annual or consolidated accounts; or (c) in any other circumstances which do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive 2003/71/EC.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan, and otherwise in compliance with any other applicable requirements of Japanese law. As used in this paragraph, a “resident of Japan” means any person residing in Japan, any corporation or other entity organized under the laws of Japan except for its branches or other offices located outside Japan and, with respect to any corporation or other legal entity organized under a law other than Japanese law, its branches and offices located in Japan.

United Arab Emirates

The information contained in this prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and is addressed only to persons who are sophisticated investors.

Australia

No prospectus or other disclosure document has been lodged with, or registered by, the Australian Securities and Investments Commission (“ASIC”) in relation to the Global Offering. This prospectus does not constitute a prospectus or other disclosure document under the Corporations Act 2001 (Cth) (“Corporations Act”) and does not purport to include the information required for a disclosure document under the Corporations Act.

Any offer in Australia of the Offer Shares under this prospectus may only be made to persons (“Exempt Investors”) who are “sophisticated investors” (within the meaning of section 708(8) of the Corporations Act), to “professional investors” (within the meaning of section 708(11) of the Corporations Act) or otherwise pursuant to one or more exemptions in section 708 of the Corporations Act so that it is lawful to offer the Offer Shares without disclosure to investors under Chapter 6D of the Corporations Act.

Offer Shares applied for by Exempt Investors in Australia must not be offered for sale in Australia for 12 months from the date of issue by the Company under the Global Offering or sale (as applicable), except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 of the Corporations Act or otherwise or where the sale is pursuant to a disclosure document which complies with Chapter 6D of the Corporations Act. Any person acquiring Offer Shares must observe such Australian on-sale restrictions.

Cayman Islands

No offer or invitation may be made to the public in the Cayman Islands to subscribe for or purchase any of the Shares.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued under the Capitalization Issue and any Shares which may be issued under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on May 18, 2007. None of our Shares or loan capital are listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

HONG KONG BRANCH REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our principal registrar, Butterfield Fund Services (Cayman) Limited in the Cayman Islands and our Company's branch register of members will be maintained by our branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited.

Dealings in the Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in our Shares. None of us, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of Shares resulting from, the subscription, purchase, holding or disposal of, or dealing in, Shares.

PROCEDURE FOR APPLYING FOR PUBLIC OFFER SHARES

The procedure for applying for Public Offer Shares is set out in the section headed "How to Apply for Public Offer Shares" in this prospectus and on the relevant Applications Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in RMB, Rupees, MOP, Euros and US dollars have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

HK\$1.00:RMB0.9957

HK\$1.00:Rs.13.928

HK\$1.00:MOP0.9984

HK\$10.34:€1.00

HK\$7.80:US\$1.00

No representation is made that any amounts in RMB, Rupees, MOP, Euros, US dollars or HK dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
--

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. WAN Wai Loi	Block 1, 13/F, Unit B Peridot Court Tai Lam, Tuen Mun New Territories Hong Kong	British
Mr. TSANG Kang Po	No. 53, Hong Lok Road West Hong Lok Yuen Tai Po New Territories Hong Kong	British
Mr. LAM Wing Tak	No. 12, 15th Street Hong Lok Yuen Tai Po New Territories Hong Kong	British
Dr. LAM King Man	2/F, Regent Court 44 Begonia Road Yau Yat Chuen Kowloon Hong Kong	British
<i>Non-executive Directors</i>		
Mr. CHOI Kin Chung	House D7, Marina Cove 380 Hiram's Highway Sai Kung New Territories Hong Kong	Canadian
Mr. IP Ping Im	Flat E, 3/F Everwell Garden No. 1 Sheung Hong Street Kowloon Hong Kong	Canadian
Mr. HO Hsiang Ming, James	67 Cedar Drive 18 Pak Pat Shan Road Tai Tam Hong Kong	Singaporean
Mr. LAU Yiu Tong	7C & 8C, Tower 1 One Beacon Hill 1 Beacon Hill Road Kowloon Hong Kong	Canadian

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
--

Name	Address	Nationality
<i>Independent Non-executive Directors</i>		
Mr. NG Ching Wah	21B, Tower 5 Dynasty Court 23 Old Peak Road Hong Kong	British
Mr. SZE Kwok Wing, Nigel	26B Kennedy Heights 10–18 Kennedy Road Mid Levels Hong Kong	British
Mr. CHAN Yue Kwong, Michael	House B6 Flamingo Garden Fei Ngo Shan Road Kowloon Hong Kong	Chinese
<i>Joint Global Coordinators, Joint Bookrunners and Joint Sponsors (in alphabetical order)</i>		
	Citigroup Global Markets Asia Limited 50th Floor, Citibank Tower Citibank Plaza, 3 Garden Road Central Hong Kong	
	Morgan Stanley Dean Witter Asia Limited 30th Floor, Three Exchange Square Central Hong Kong	
<i>International Underwriters (in alphabetical order)</i>		
	Citigroup Global Markets Limited Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB United Kingdom	
	Morgan Stanley & Co. International plc c/o Morgan Stanley Dean Witter Asia Limited 30th Floor, Three Exchange Square Central Hong Kong	

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

International Co-Managers

(in alphabetical order)

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

First Shanghai Securities Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

Public Offer Underwriters

Joint Lead Managers

(in alphabetical order) . . .

Citigroup Global Markets Asia Limited
50th Floor, Citibank Tower
Citibank Plaza, 3 Garden Road
Central
Hong Kong

Morgan Stanley Dean Witter Asia Limited
30th Floor, Three Exchange Square
Central
Hong Kong

Co-Lead Manager

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

Co-Manager

First Shanghai Securities Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

Legal Advisors to

the Company

as to Hong Kong and US law:

Linklaters
10th Floor, Alexandra House
Chater Road
Hong Kong

as to PRC law:

King & Wood
40th Floor, Office Tower A
Beijing Fortune Plaza
7 Dongsanhuan Zhonglu
Chaoyang District
Beijing 100020
China

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

as to Sri Lanka law:

F. J. & G. de Saram
Attorneys-at-Law
No. 216, de Saram Place
Colombo 10
Sri Lanka

as to Cayman Islands and British Virgin Islands law:

Maples and Calder
1504 One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Legal Advisors to the Underwriters

as to Hong Kong and US law:

Skadden, Arps, Slate, Meagher & Flom
42/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Auditors and Reporting Accountants

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Property Valuer

Vigers Appraisal & Consulting Limited
10/F, The Grande Building
398 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

Receiving Bankers

Hang Seng Bank, Limited
Head Office, 83 Des Voeux Road Central
Hong Kong

Industrial and Commercial Bank of China (Asia) Ltd
33/F, ICBC Tower
3 Garden Road
Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
15/F, Standard Chartered Tower
388 Kwun Tong Road
Kwun Tong
Hong Kong

CORPORATE INFORMATION

Registered office	P.O. Box 309GT, Ugland House South Church Street George Town, Grand Cayman Cayman Islands
Head office and principal place of business in the PRC	Liu Chong Tong Xin County Wan Qing Sha Town Nansha, Guangzhou City Guangdong Province, PRC
Head office and principal place of business in Hong Kong	7/F, Block B, Eastern Sea Industrial Building 48-56 Tai Lin Pai Road Kwai Chung New Territories Hong Kong
Company secretary and qualified accountant	Mr. LAM Hing Chau Leon, <i>FCPA</i> Flat B, 10/F, Block 6 Woodland Crest 33 Tin Ping Road Sheung Shui New Territories Hong Kong
Audit committee	Mr. SZE Kwok Wing, Nigel (<i>Chairman</i>) Mr. NG Ching Wah Mr. CHAN Yue Kwong, Michael
Remuneration committee	Mr. CHAN Yue Kwong, Michael (<i>Chairman</i>) Mr. SZE Kwok Wing, Nigel Mr. NG Ching Wah Mr. LAM Wing Tak Mr. TSANG Kang Po
Nomination committee	Mr. NG Ching Wah (<i>Chairman</i>) Mr. CHAN Yue Kwong, Michael Mr. SZE Kwok Wing, Nigel Mr. LAM Wing Tak Mr. TSANG Kang Po
Authorized representatives	Mr. LAM Wing Tak No. 12, 15th Street Hong Lok Yuen Tai Po New Territories Hong Kong Mr. LAM Hing Chau Leon Flat B, 10/F, Block 6 Woodland Crest 33 Tin Ping Road Sheung Shui New Territories Hong Kong

CORPORATE INFORMATION

Principal bankers	BNP Paribas, Hong Kong Branch 59-63/F, Two International Finance Centre 8 Finance Street Central Hong Kong Citibank N.A. 45/F, Citibank Tower, Citibank Plaza 3 Garden Road Hong Kong Hang Seng Bank Ltd 83 Des Voeux Road Central Hong Kong The Hongkong and Shanghai Banking Corp. Ltd. HSBC Building 82-84 Nathan Road Tsimshatsui Road Kowloon Hong Kong HSH Nordbank AG, Hong Kong Branch Level 31 Three Pacific Place 1 Queen's Road East Hong Kong Industrial and Commercial Bank of China (Asia) Ltd. 33/F, ICBC Tower 3 Garden Road Central Hong Kong Standard Chartered Bank (Hong Kong) Ltd. 7/F, Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong
--------------------------------	---

CORPORATE INFORMATION

Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712 – 1716 Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
Compliance advisor	Anglo Chinese Corporate Finance Limited 40/F, Two Exchange Square 8 Connaught Place Central Hong Kong

INDUSTRY OVERVIEW

Some of the information and statistics set out in this section and elsewhere in this prospectus have been extracted from official government publications. No independent verification has been carried out on such information and statistics. Reasonable care has been exercised by the Directors in the exercise of extracting and repeating such information. Our Company, the Joint Sponsors, the Underwriters, their respective directors and advisors and any other party involved in the Global Offering make no representation as to the accuracy of such information and statistics, which may be inaccurate, incomplete, out-of-date or inconsistent with each other or with other information.

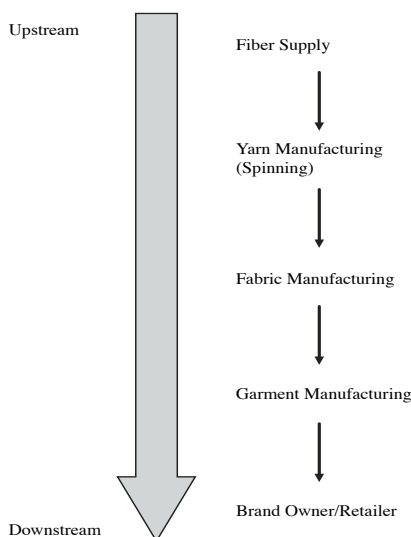
FABRIC MANUFACTURING INDUSTRY

Overview of the global fabric manufacturing industry

Fabric products are primarily mass-produced commodities, with cost of production as the critical competitive factor in the industry. As a result, economies of scale, availability of raw materials and low cost production inputs (such as labor) have shifted key fabric production centers away from developed countries such as the United Kingdom, the United States, other European countries or Japan to locations such as China, India and Pakistan. In particular, China has increasingly become the focal point for industry concentration due to its access to a large supply of the world's cotton, abundant supply of low cost and skilled labor and efficiencies gained from the co-location of the various parts of the textile industry value chain.

Fabric manufacturing begins with the supply of fiber, which primarily consists of cotton and other natural and synthetic sources. Fiber is the main raw material in the production of commodity yarn, which is in turn sold to fabric manufacturers that knit or weave the yarn into fabrics for apparel, household products and other textile-related goods. Apparel fabric manufacturers receive orders from garment manufacturers who process fabric materials into finished clothing. For some fabric manufacturers, such as the Company, orders from the garment manufacturers may come at the specific directive of the ultimate apparel brand owners or retailers. In these cases, fabric manufacturers work in partnership with brand owners or retailers to jointly formulate design details, coloration, printing styles and other fashion specifications prior to fabrication and subsequent sale to garment manufacturers.

The diagram below illustrates the various steps in the textile industry production chain:



INDUSTRY OVERVIEW

There are two main types of fabric manufacturing, characterized by their different production techniques: knitting and weaving. Knitted fabric is stretchable and mainly used in sports and casual wear. Knitted fabric can be categorized into weft and warp knitted, depending on the direction in which the fibers or yarns are knitted (weft is horizontal and warp is vertical). Warp knitted fabric is often used in swimwear and inner-wear while weft knitted fabric is often used in T-shirts. Woven fabric is non-stretchable and typically used in formal apparel. Depending on the raw materials used, fabric, whether knitted or woven, can be further categorized into cotton fabric, silk fabric, synthetic fabric, mixed fabric and so forth.

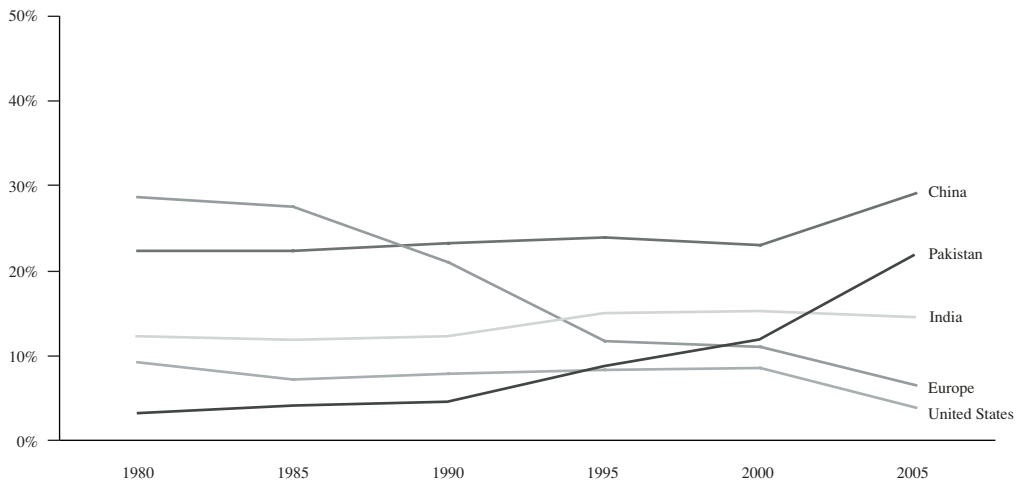
Development trends of the global fabric manufacturing industry

Continued shift of fabric supply chain to the East

According to International Cotton Advisory Committee (ICAC), China, India and Pakistan's total share of the global cotton fabric production has increased from 38.3% in 1980 to 65.2% in 2005. This increase has been predominantly at the expense of historical production centers such as the United States and Europe. In the future, the market share of these developed countries is expected to continue to decline further, while those of developing countries, especially Asian countries, will likely increase due to the cost and other advantages that those regions enjoy.

The following table shows historical production of cotton fabric for China, Pakistan, India, the United States and Europe:

Global Production of Cotton Fabric
% of global production



Source: *World Textiles Demand, September 2006, International Cotton Advisory Committee (ICAC)*

INDUSTRY OVERVIEW

The majority of the fabrics produced for export in the Indian Sub-continent are mainly woven fabrics for apparel and non-apparel products including bedding, towels, blankets and furnishings, while China and Southeast Asia's exports focus more on apparel. The United States imports more cotton apparel from China and Southeast Asian countries collectively than all other parts of the world.

United States Cotton Apparel Imports by Regions

% of total export by value

	12 months ended 12/2004	12 months ended 12/2005	12 months ended 10/2006
China	7.4%	14.6%	15.9%
Hong Kong & Macau	8.0%	8.1%	8.0%
ASEAN ¹	17.4%	18.0%	20.2%
Indian Sub-continent ²	10.4%	12.6%	14.3%
EU 15	1.8%	1.5%	1.3%
CAFTA ³	18.1%	15.8%	14.3%
CBI ⁴	19.0%	16.7%	15.2%
Others	17.9%	12.7%	10.8%
World	100.0%	100.0%	100.0%

Source: *Shippers Report, OTEXA, U.S. Department of Commerce*

Notes:

1. ASEAN includes the following member countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
2. The Indian Sub-continent includes the following countries: India, Pakistan and Bangladesh.
3. CAFTA: Central American Free Trade Agreement, which includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic.
4. CBI: Caribbean Basin Initiative, which includes 23 island countries in Central America and the Caribbean.

Rising costs raise barriers to entry in the fabric industry

Rising costs to comply with increasingly stringent environmental and other regulations worldwide are making smaller, less capitalized fabric manufacturers less competitive. In this environment, fabric producers with scale and a strong capital base can benefit from strict regulation as compliance costs are relatively more easily absorbed. Over time it is expected that cost pressures will encourage the smaller and less profitable businesses to exit and facilitate more consolidation activity in the sector. Moreover, any new entrants will also face increased barriers to entry in the fabric industry due to the elevating costs.

Continued growth in the Chinese fabric and garment industry from trade liberalization

Fabric producers that supply garment manufacturers are not directly affected by trade restrictions on garment exports to the European Union. Accordingly, quotas or duties related to garments apply to venues that manufacture the finished garment products and not to jurisdictions that supply the raw material inputs, such as knitted fabrics. As a result, fabric producers with operations in China, like our Company, can sell to garment manufacturers outside of China without themselves being subject to current trade restrictions on Chinese-made garments.

The United States currently imposes quota restrictions on imports of knitted fabric from China. However, fabric manufacturers, like the Company, whose customers are primarily garment manufacturers not based in the United States, are not subject to such restrictions on knitted fabrics.

INDUSTRY OVERVIEW

Future trade liberalization related to garment exports from China can indirectly benefit fabric producers in China who enjoy low production costs and good infrastructure by lowering the overall cost of garment distribution.

Improvement in production technologies and management systems driving higher efficiency

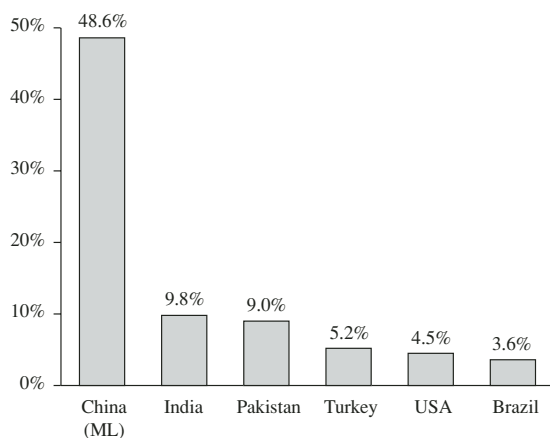
Fabric manufacturers, particularly in developed countries, have improved knitting, dyeing and printing techniques. Such advances in technology have resulted in the development of fabric with specialized features and functionalities. Similarly, technological advances in the areas of computer automation, sensors, data management and networks, as well as fabric manufacturing techniques, have resulted in shorter lead times, higher quality, lower unit costs, improved efficiency, and increased speed and scale of operations. Fabric manufacturers in the emerging markets have generally lagged in adopting these more advanced production methods due to the high initial investment costs and the need to break with traditional methods. However, well-capitalized producers in low-cost countries increasingly employ such technological advances and are expected to continue to do so. These producers generally enjoy a competitive advantage in manufacturing capabilities and efficiencies.

Primary strengths of China's fabric industry

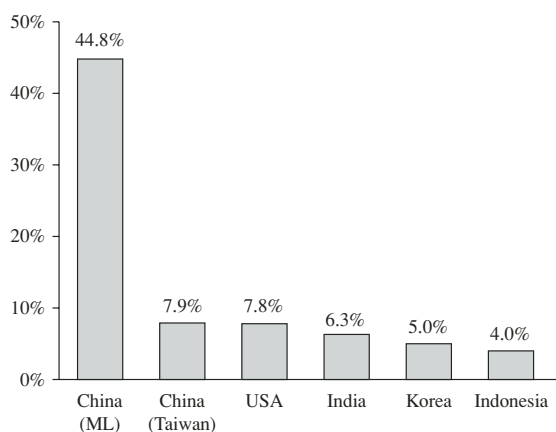
Abundant supply of raw materials

China's fabric manufacturing industry enjoys advantages in terms of the availability of and proximity to raw materials. China is the world's largest producer of cotton yarn and synthetic yarn, and continues to increase its share of the world's cotton and synthetic yarn production. The ICAC projects that China will account for 50% of world yarn production in 2007, up from 28% in 2000 and 18% in 1990. In 2005, China produced 48.6% of the world's cotton yarn and 44.8% of the world's synthetic yarn.

Leading Producers of Cotton Yarn in 2005
% of global production



Leading Producers of Synthetic Yarn in 2005
% of global production



Source: *World Textiles Demand, September 2006, International Cotton Advisory Committee (ICAC)*

INDUSTRY OVERVIEW

Proximity to major garment producers

The proximity of garment producers gives Chinese fabric manufacturers efficiency benefits in sourcing, logistics, transportation and storage. Some of the largest garment manufacturers are located in China. China, Hong Kong, Macau and nearby Southeast Asian countries also constitute the largest cotton garment producing region in the world. According to the shipper's report compiled by OTEXA, around 44% of the total cotton apparel exports to the United States were from this region in the 12 months ended October 2006.

Availability of large, low-cost labor pool

China retains a comparative advantage in labor cost with its large and urbanizing population. According to the China Statistical Year Book 2006, the economically active population in China was 778.8 million in 2005, of which 273.3 million were employed in urban areas, an increase of 8.6 million from 2004. The China Textile Association estimates that 9.8 million people worked in the fabric manufacturing industry in 2004. As China continues to urbanize, laborers are expected to continue migrating to its cities for job opportunities.

Primary Textiles Labor Cost Comparison US\$ per Operator Hour Countries/Regions

	1998	2000	2002	2004
Japan	20.70	26.10	22.76	27.77
Italy	15.81	14.71	13.93	19.76
United States	12.97	14.24	15.13	15.78
Taiwan	5.85	7.23	7.15	7.58
South Korea	3.63	5.32	5.73	7.10
Hong Kong	5.65	6.10	6.15	6.21
Turkey	2.48	2.69	2.13	2.88
Thailand	1.09	1.18	1.24	1.29
China	0.62	0.69	0.69	0.76
India	0.60	0.58	0.57	0.67
Indonesia	0.24	0.32	0.50	0.55
Sri Lanka	0.49	0.46	0.40	0.46
Pakistan	0.40	0.37	0.34	0.37

Source: Compiled from reports each of which was entitled "Primary Textiles Labor Cost Comparison", published in 1998, 2000, 2002 and 2004 by Werner International, a management consulting company founded in 1939 to specialize in the textile, apparel and fashion industries.

Strong growth in the domestic market

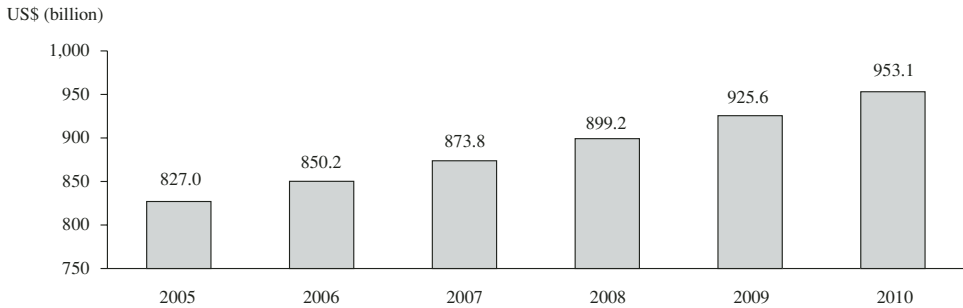
With rapid economic growth and a large population, China's domestic market is large and growing, and represents an important market for cotton fabric demand. According to the World Bank, China's gross domestic product was approximately US\$2.2 trillion in 2005, the fourth highest in the world, and is forecasted to grow at a compound annual growth rate of approximately 8.0% through 2010. China is the world's most populated country, with a population of about 1.3 billion in 2005. According to Datamonitor, China's apparel retail industry generated total revenues of US\$61.2 billion in 2005, representing 29.7% of the Asia-Pacific apparel retail market. In 2010, China's apparel retail revenues are projected to reach US\$81.8 billion, representing a compound annual growth rate of 6%.

INDUSTRY OVERVIEW

Increased international demand for garments

China's status as the largest textile production base in the world, together with the further liberalization of textile trade, positions China to capture the expected increased international demand for garments. As a key link in the textile and garment supply chain in China, the fabric production industry should also benefit from increased global demand. According to Datamonitor, the global apparel retail industry will grow to US\$953.1 billion by 2010, representing a compound annual growth rate of 2.9% from 2005.

Global Apparel Retail Industry Value Forecast



Source: Compiled from report entitled "Global Apparel Retail" (August 2006) by Datamonitor, a leading business information company specializing in industry analysis using a combination of primary research, including online, face-to-face telephone interviews with consumer and industry players, and secondary research using various sources (including trade associations and news providers).

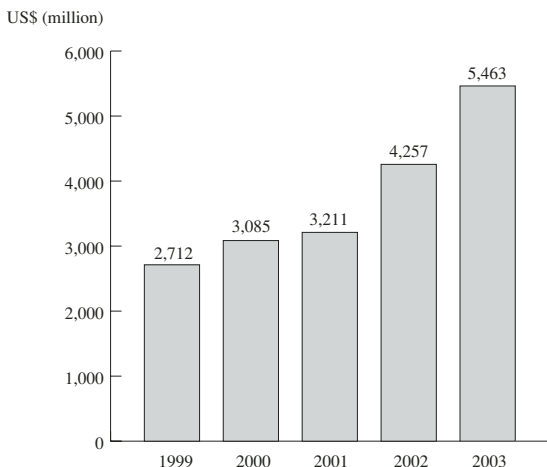
Cotton and synthetic fabric

Both cotton and synthetic fabric exports from China show a strong growth trend of approximately 20% compound annual growth rate from 1999 to 2003. China has increased its overall share of the world market in terms of production volume, and has continued to expand exports. These trends are expected to continue.

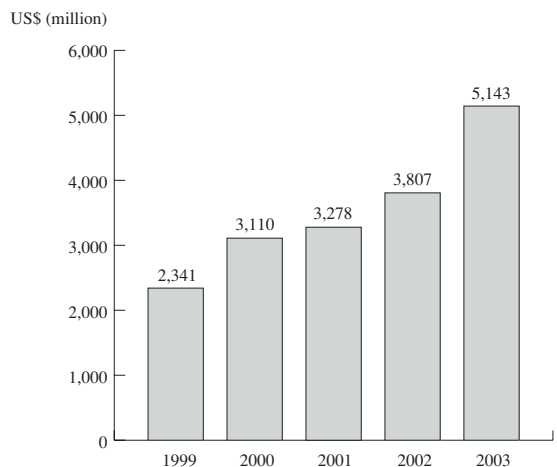
According to the China Textile Association, China's exports of cotton fabric increased from US\$2.7 billion in 1999 to US\$5.5 billion in 2003, representing a compound annual growth rate of 19.1%.

In the same period, China's exports of synthetic fabric more than doubled from US\$2.3 billion in 1999 to US\$5.1 billion in 2003, representing a compound annual growth rate of 21.7%.

China Exports of Cotton Fabric



China Exports of Synthetic Fabric

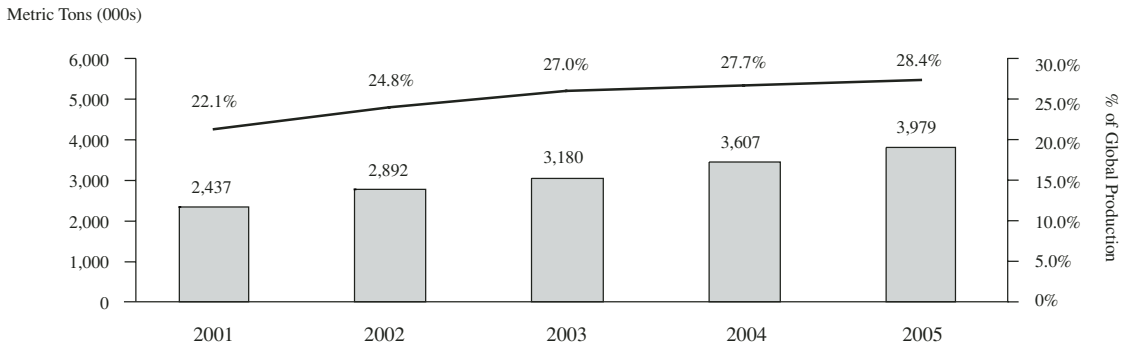


Source: Textile Handbook, 2006, China Textile International Exchange Center, China Textile Association

INDUSTRY OVERVIEW

Following China's admission to the WTO at the end of 2001, China's cotton fabric production increased from 2.4 million tons in 2001 to 4.0 million in 2005. During the same period, China's market share of global cotton fabric production increased from 22.1% to 28.4%.

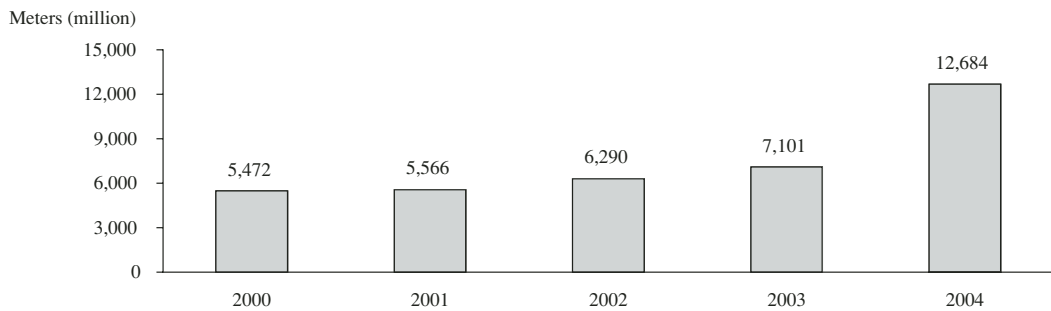
China Cotton Fabric Production



Source: *World Textiles Demand, September 2006, International Cotton Advisory Committee (ICAC)*

According to the China Textile Association, China's production of synthetic fabric is 12,684 million meters in 2004, which has more than doubled since 2000, representing a compound annual growth rate of 23.4%.

China Synthetic Fabric Production



Source: *Textile Handbook, 2006, China Textile International Exchange Center, China Textile Association*

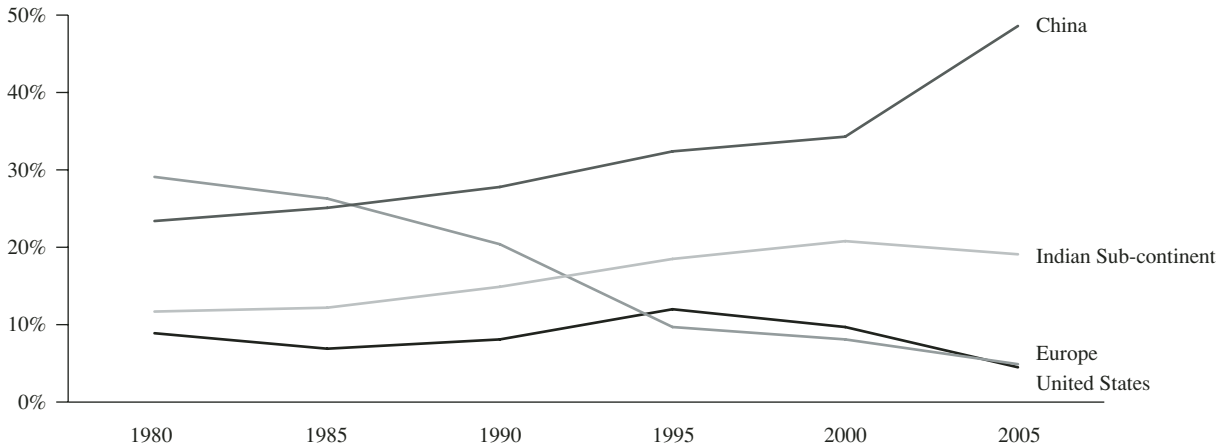
Cotton and synthetic yarn

Cotton yarn is a primary raw material input for fabric manufacturers. China is the world's largest producer of cotton yarn and has increased its share of the market since the 1980s. The trend of taking production share from more developed nations has also been seen to a lesser extent with respect to the Indian Sub-continent. In 2005, 67.7% of the world's cotton yarn was produced in China and the Indian Sub-continent, rising from 35.1% in 1980, while Europe and the United States only accounted for 9.4% of capacity, declining from 38.0% in 1980. In 2005, China was the top cotton yarn producing country, with an annual production of 12.1 million tons of cotton yarn, representing 48.6% of the world output. Other important yarn producing countries, e.g., Pakistan and India, are also located near China.

Cotton yarn is a commercial, unregulated product in China and Sri Lanka, and its price is largely driven by demand and supply conditions in the market.

INDUSTRY OVERVIEW

Global Production of Cotton Yarn % of global production



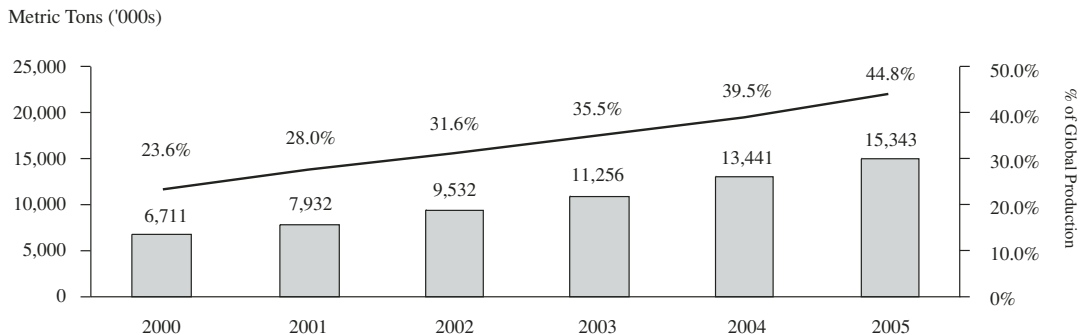
Source: World Textiles Demand, September 2006, International Cotton Advisory Committee (ICAC)

Notes:

1 The Indian Sub-continent comprises India, Pakistan and Bangladesh

Synthetic yarns are man-made fibers from non-naturally occurring materials. Common synthetic yarns include rayon, acetate, nylon and polyester, among others. The world's synthetic yarn production reached 34.2 million tons in 2005, with production heavily concentrated in China. China is the world's biggest producer of synthetic yarn, and it has more than doubled its production from 6.7 million tons in 2000 to 15.3 million tons in 2005, representing a compound annual growth rate of 18.0%.

China Synthetic Yarn Production

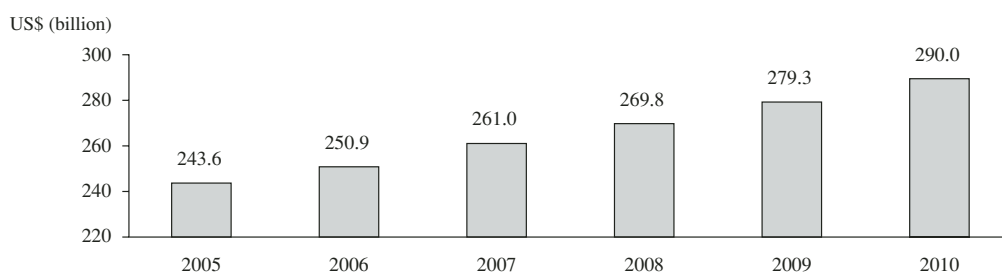


Source: World Textiles Demand, September 2006, International Cotton Advisory Committee (ICAC)

According to Datamonitor, the Asia-Pacific region was the world's largest yarn market, which includes synthetic yarn, cotton yarn, rayon and acetate, and wool yarn, generating 46.7% of the global yarn market revenue in 2005. In 2010, the global yarn market is forecasted to grow to US\$290 billion from US\$243.6 billion in 2005, a compound annual growth rate of 3.6%.

INDUSTRY OVERVIEW

Global Yarn Market¹ Revenue Forecast



Source: *Global Textiles, Datamonitor, October 2006*

Notes:

1. Global yarn market includes synthetic yarn, cotton yarn, rayon and acetate, and wool yarn.

Cotton Production

As yield-enhancing technology has reduced the cost of producing cotton around the world, rising petroleum prices have further favored consumption of cotton rather than polyester, the raw material in synthetic yarns, since the production of synthetic fiber such as polyester requires petroleum-based raw materials such as styrene and glycols. With increasing yield prospects, farmers worldwide have devoted additional agricultural land to cotton growth, further easing the ability of the global cotton sector to meet growing world demand for textiles.

China remains the world's largest producer of cotton, representing more than one-fifth of the world's output from 2002 to 2006.

Global Cotton Producers

	2002/03	% of World (2002/03)	2003/04	% of World (2003/04)	2004/05	% of World (2004/05)	2005/06	% of World (2005/06)
Metric Tons ('000s)								
Production								
China	4,921	25.6%	4,855	23.4%	6,314	24.1%	5,704	23.0%
United States	3,747	19.6%	3,975	19.2%	5,062	19.3%	5,201	20.9%
India	2,308	12.0%	3,048	14.7%	4,137	15.8%	4,180	16.8%
Pakistan	1,698	8.8%	1,687	8.1%	2,426	9.3%	2,145	8.6%
Uzbekistan	1,002	5.2%	893	4.3%	1,132	4.3%	1,208	4.9%
Others	5,539	28.8%	6,284	30.3%	7,142	27.2%	6,414	25.8%
World	19,215	100.0%	20,742	100.0%	26,213	100.0%	24,852	100.0%

Source: *Cotton: World Market and Trade, U.S. Department of Agriculture (USDA), November 2006*

Cotton produced in China was historically subject to a fixed price system. To allow for a more market-based approach to cotton pricing, the China National Cotton Exchange (CNCE) established the Chinese Cotton Price Index in June 2002, a market index that tracks cotton prices (<http://www.cottonchina.org/english/ccindex.htm>). The Index is calculated from the prices at which cotton is offered to the final consumers, i.e. mills, and is published at 9:00 a.m. every working day. Cotton prices in China tend to be higher than international cotton prices as the Chinese authorities have not permitted the textile mills free access to foreign cotton.

REGULATIONS AND POLICIES

Relevant regulations regarding the textile/cotton industry in China

Textile industry guiding policies

China has implemented policies with respect to the textile industry since the 1990s to encourage growth and competitiveness of the Chinese textile industry. The PRC government's measures are aimed at eliminating outdated machinery and improving production processes and product quality. The PRC government also sought to encourage the industry's export market and its international competitiveness while maintaining control over the total output of the textile industry. In addition, it instituted policies to encourage foreign investment in the textile industry.

According to the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) issued by the Ministry of Commerce and the National Development and Reform Commission on November 30, 2004, the PRC government encourages foreign investments in the production of special types of textiles, weaving and dyeing processes as well as the post refining process of high-end fabric materials while it restricts foreign investments in the manufacture of wool, cotton yarn and filature.

According to the Opinions on the Implementation of Transforming and Upgrading Traditional Industries by High and New Technologies and Advanced Applied Technologies (《關於用高新技術和先進適用技術改造提升傳統產業的實施意見》) issued by the former State Economic and Trade Commission on April 17, 2002, the PRC government encourages the use of new and advanced technologies in the textile industry.

Textile export policies

According to the Regulations of the People's Republic of China on the Administration of Import and Export of Goods (《中華人民共和國貨物進出口管理條例》), the administrative measures that China adopts to control exporting goods mainly include export quotas, export licenses, state-operated trade restrictions, designated trading and passive export quotas.

In the past, China had adopted relatively stringent administrative measures to control textile export. Since China's admission into the WTO in 2001, the above administrative measures to control textile export have been relaxed and partially abolished. According to the Catalogue of Goods Subject to State-operated Export Trade Administration (《出口國營貿易管理貨物目錄》) and the Catalogue of Goods Subject to Export Designated Trade Administration (《出口指定經營管理貨物目錄》), China no longer implements State-operated trade controls on the export of textile products.

According to the Notice on Adjusting Export Tax Refund Rates of Certain Products and Supplementing the Catalogue of Prohibited Merchandise in Export Processing (Caishui [2006] No. 139) (《關於調整部分商品出口退稅率和增補加工貿易禁止類商品目錄的通知》(財稅[2006]139號)), from September 15, 2006, the refund rate for exporting textile products has been reduced from 13.0% to 11.0%.

According to the Provisional Administrative Measures on Textile and Apparel Exports (《紡織品出口管理辦法(暫行)》) promulgated by the Ministry of Commerce on September 18, 2006, China-based textile manufacturers exporting to countries or regions that have imposed restrictions on China's textile and apparel export or entered into bilateral agreements with China regarding temporary arrangements relating to the quantity of their imports of China-made textile are required to apply for a license in order to export the affected categories of textiles or apparel products to these markets.

INDUSTRY OVERVIEW

According to the Provisional Administration of Textiles and Apparel Exports to the USA (《輸美紡織品出口臨時管理商品目錄》) and the Provisional Administration of Textiles and Apparel Exports to the European Union (《輸歐盟紡織品出口臨時管理商品目錄》) promulgated by the Ministry of Commerce, General Administration of Customs and State Bureau of Quality and Technical Supervision Announcement, with effect from January 1, 2007, dyed cotton warp knit fabrics, cotton warp knit fabrics from yarns of different colors, printed cotton warp knit fabrics, other knitted or crocheted fabrics from synthetic fibers, and other textiles exported to the United States require an export license, and bleached medical cotton gauze, plain-woven cotton cloth, bleached plain-woven cotton cloth for printing and dyeing and other dyed woven cotton fabrics exported to the European Union require an export license.

CORPORATE STRUCTURE AND HISTORY

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

History and development

We commenced operations in 1997 when PPTL, our principal operating subsidiary, was established in the PRC as a wholly foreign-owned enterprise to engage in knitted fabric manufacturing. Our business was founded by Mr. Choi Kin Chung, Mr. Ip Ping Im, Mr. Wan Wai Loi and Mr. Tsang Kang Po. Our Directors, Mr. Choi Kin Chung, Mr. Wan Wai Loi, Mr. Lam Wing Tak, Dr. Lam King Man and Mr. Lau Yiu Tong were directors of Fountain Set (Holdings) Limited and they all resigned on their own accord in the 1990's. Pacific Textiles Limited, a company incorporated in Hong Kong in March 1994, is the holding company of PPTL and is engaged principally in sales and marketing activities for the Group.

Reorganization

The Company was incorporated in the Cayman Islands as an exempted company on October 12, 2004 in preparation for the Reorganization and the possible listing of Shares on the Stock Exchange. The Reorganization took place in November 2004. As part of the Reorganization, Pacific HK & China Holdings Ltd., a wholly-owned subsidiary of the Company, acquired the entire share capital in Pacific Textiles Limited from entities beneficially owned by the founders of the business (i.e., Silver Bay International Holdings Limited, Far East Asia Limited, Hollywood Pacific Limited and Top Strong Holdings Limited), Fifth Element Enterprises Limited and Effective Approach Technology Limited for a total consideration of 1,030,000 Shares.

The following table details the shareholders' interest in Pacific Textiles Limited and in the Company immediately before and after the acquisition of Pacific Textiles Limited by the Company.

Shareholders	Immediately before the acquisition of Pacific Textiles Limited by the Company		Immediately after the acquisition of Pacific Textiles Limited by the Company		
	Number of shares in Pacific Textiles Limited	Number of Shares	Number of Shares issued in consideration for interest in Pacific Textiles Limited	Number of Shares	Percentage of shareholding in the Company
Far East Asia Limited	4,500,000	4,050,000	450,000	4,500,000	43.69%
Silver Bay International Holdings Limited	2,500,000	2,250,000	250,000	2,500,000	24.27%
Fifth Element Enterprises Limited	1,000,000	900,000	100,000	1,000,000	9.71%
Hollywood Pacific Limited	1,000,000	900,000	100,000	1,000,000	9.71%
Top Strong Holdings Limited	1,000,000	900,000	100,000	1,000,000	9.71%
Effective Approach Technology Limited ..	300,000	270,000	30,000	300,000	2.91%
Total	10,300,000	9,270,000	1,030,000	10,300,000	100.00%

Following the transfer, Pacific Textiles Limited became a direct wholly-owned subsidiary of Pacific HK & China Holdings Ltd.

As part of the Reorganization, in November 2004, Pacific Textiles Overseas Holdings Ltd., a wholly-owned subsidiary of the Company, acquired all the quotas (or shares) in Pacific Overseas Textiles Macao Commercial Offshore Limited, a company incorporated in Macau on December 13, 2002 from Far East Asia Limited, Mr. Choi Kin Chung's spouse, Fifth Element Enterprises Limited, Hollywood Pacific Limited, Top Strong Holdings Limited and Effective Approach Technology Limited for a total consideration of MOP1,030,000 (approximately HK\$1,031,651).

CORPORATE STRUCTURE AND HISTORY

After completion of the transfer, Pacific Overseas Textiles Macao Commercial Offshore Limited, which is principally engaged in sales, marketing and procurement activities for the Group, became a wholly-owned subsidiary of Pacific Textiles Overseas Holdings Ltd.

Acquisitions

Textured Jersey Lanka (Private) Limited

During the Track Record Period, we expanded our business by acquiring a Sri Lanka fabric manufacturing facility. On November 3, 2004, we acquired approximately 52% of the total issued shares, or 43,359,368 shares, in PT Sri Lanka from Pacific International Development Limited (“PIDL”)¹. We agreed to be bound by the joint venture agreement entered into by PIDL and assumed the obligations and duties under the PT Sri Lanka SPA entered into between PIDL, Linea Clothing (Private) Limited² and PT Sri Lanka. The total consideration for the acquisition of our interest in PT Sri Lanka was approximately US\$2.1 million which was the consideration for the same shares payable by PIDL under the PT Sri Lanka SPA. After completion of the transfer, we and Linea Clothing (Private) Limited owned approximately 52% and approximately 48% of PT Sri Lanka respectively. For further details regarding the operations in Sri Lanka, please see “Business”.

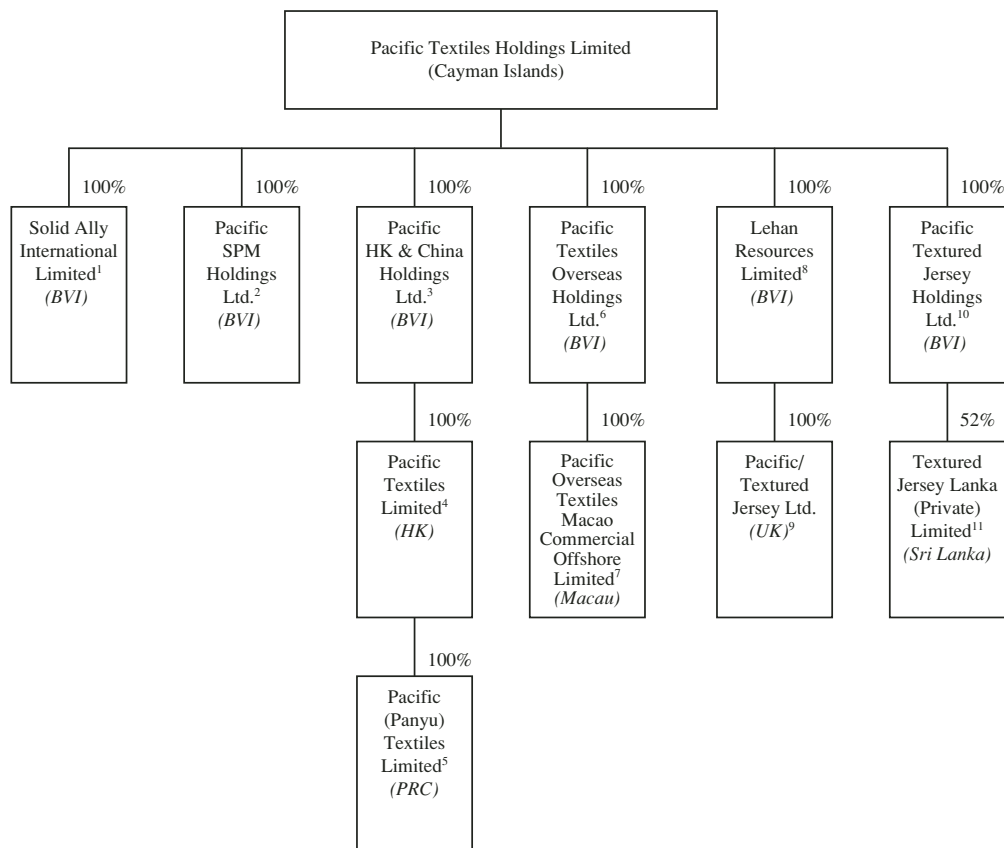
Notes:

1. PIDL, a company incorporated in the BVI, is jointly held by Far East Asia Limited, Silver Bay Holding Corporation, Fifth Element Enterprises Limited, Hollywood Pacific Limited, Top Strong Holdings Limited and Effective Approach Technology Limited. Since the disposal of its interest in PT Sri Lanka, PIDL has no business operations and does not own any material assets.
2. Linea Clothing (Private) Limited, a company incorporated in Sri Lanka, is a non-wholly-owned subsidiary of MAS Capital (Private) Limited. MAS Group is one of the largest suppliers of intimate apparel in Sri Lanka and is one of the top five customers of the Group. Please see “Connected Transactions” for further details of MAS Group and its transactions with us.

CORPORATE STRUCTURE AND HISTORY

Corporate structure

The following chart sets out the corporate structure of the Group as at the Latest Practicable Date.



Notes:

1. Solid Ally International Limited is an investment holding company. It holds 50% interest in Fillattice-Pacific, an associated company of the Company. For further details, please see “Business — Investments in other companies — Fillattice-Pacific Limited”.
2. Pacific SPM Holdings Ltd. is an investment holding company. It holds 33% interest in SPM Automotive, an associated company of the Company. For further details, please see “Business — Investments in other companies — SPM Automotive Textile Co., Ltd.”
3. Pacific HK & China Holdings Ltd. is an investment holding company.
4. Pacific Textiles Limited principally engages in sales and marketing activities for the Group.
5. PPTL principally engages in knitted fabric manufacturing. For further details, please see “Business — Panyu Facility”.
6. Pacific Textiles Overseas Holdings Ltd. is an investment holding company.
7. Pacific Overseas Textiles Macao Commercial Offshore Limited principally engages in sales, marketing and procurement activities for the Group.
8. Lehan Resources Limited is an investment holding company.
9. Pacific/Textured Jersey Ltd. principally engages in sales and marketing activities for the Group.
10. Pacific Textured Jersey Holdings Ltd. is an investment holding company.
11. PT Sri Lanka principally engages in knitted fabric manufacturing. For further details, please see “Business — Sri Lanka Facility”.

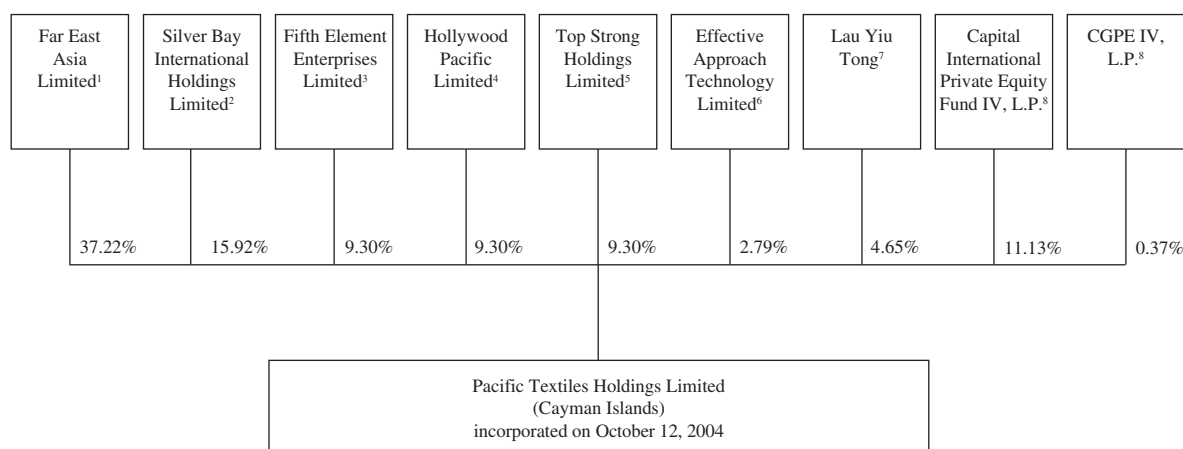
CORPORATE STRUCTURE AND HISTORY

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company immediately after the Reorganization was as follows:

Shareholders	Approximate percentage of shareholding
Far East Asia Limited ¹	43.69%
Silver Bay International Holdings Limited ²	24.27%
Fifth Element Enterprises Limited ³	9.71%
Hollywood Pacific Limited ⁴	9.71%
Top Strong Holdings Limited ⁵	9.71%
Effective Approach Technology Limited ⁶	2.91%
Total	100.00%

The shareholding structure of the Company as at the Latest Practicable Date is as follows:



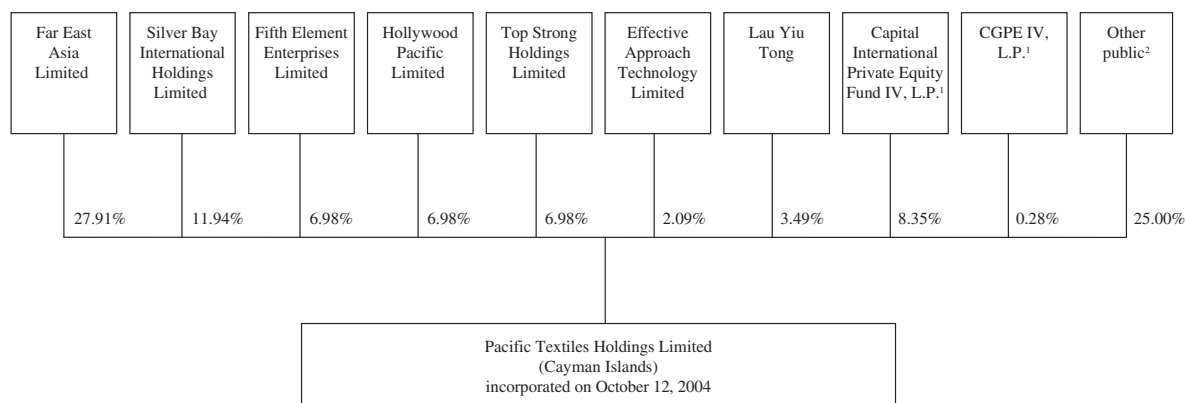
Notes:

1. Mr. Ip Ping Im, a Director, is the sole beneficial owner of Far East Asia Limited. Far East Asia Limited held 4,500,000 Shares of which 500,000 Shares were, until May 19, 2006, held on trust for the benefit of Mr. Lau Yiu Tong, a Director. Thereafter, the Shares were transferred back to Mr. Lau Yiu Tong.
2. Silver Bay International Holdings Limited is wholly-owned by Trustcorp Limited, the trustee of the United Harmony Trust, a discretionary trust set up by Mr. Choi Kin Chung. Certain members of Mr. Choi Kin Chung's family are the discretionary objects of the United Harmony Trust. On December 14, 2004, the Company repurchased 788,980 Shares held by Silver Bay International Holdings Limited for approximately US\$19,148,545 (approximately HK\$149,358,651) which was determined after arm's length negotiation between the parties by reference to the earnings of the Company and the subscription price for the subscription of 43,384 Shares and 1,192,616 Shares by CGPE IV, L.P. and Capital International Private Equity Fund IV, L.P., respectively (please refer to note 8 below for further details).
3. Mr. Lam Wing Tak, a Director, is the sole beneficial owner of Fifth Element Enterprises Limited.
4. Mr. Wan Wai Loi, a Director, and his spouse and children are the beneficial owners of Hollywood Pacific Limited and they jointly own 100% shares in Hollywood Pacific Limited.
5. Mr. Tsang Kang Po, a Director, and his spouse are the beneficial owners of Top Strong Holdings Limited and they jointly own 100% shares in Top Strong Holdings Limited.
6. Dr. Lam King Man, a Director, and his spouse are the beneficial owners of Effective Approach Technology Limited and they jointly own 100% shares in Effective Approach Technology Limited.
7. On May 19, 2006, Far East Asia Limited transferred 500,000 Shares to Mr. Lau Yiu Tong, a Director, at nil consideration. The 500,000 Shares were previously held on trust by Far East Asia Limited for the benefit of Mr. Lau Yiu Tong pursuant to a declaration of trust dated November 8, 2004.

CORPORATE STRUCTURE AND HISTORY

8. On December 14, 2004, the Company allotted and issued 43,384 Shares and 1,192,616 Shares, to CGPE IV, L.P. and Capital International Private Equity Fund IV, L.P., respectively, at US\$24.27 (approximately HK\$189.3) per Share which was determined after arm's length negotiation between the parties by reference to the earnings of the Company. On December 14, 2004, a shareholders' agreement (the "Shareholders' Agreement") was entered into by, among others, the Company, Capital International Private Equity Fund IV, L.P. and CGPE IV, L.P. in which Capital International Private Equity Fund IV, L.P. and CGPE IV, L.P. were granted, among other things, rights of first offer, tag-along rights, various consent rights, various consultation rights and a put option. Pursuant to the Shareholders' Agreement, a shareholder of the Company intending to make a transfer of shares is required to deliver a sale notice to other parties to the Shareholders' Agreement at least 30 days prior to making such transfer, detailing, amongst others, the number of shares proposed to be transferred, the identity of the proposed purchaser and the proposed transfer price. The transferring shareholder, upon the request of either of Capital International Private Equity Fund IV, L.P. and CGPE IV, L.P., must arrange for the proposed purchaser to purchase either the pro-rata portion of shares held by, or in certain circumstances all of the shares held by, Capital International Private Equity Fund IV, L.P. and CGPE IV, L.P. on the same terms and conditions offered to the transferring shareholder by the proposed purchaser. All parties to the Shareholders' Agreement have mutually agreed that the Shareholders' Agreement shall be terminated in its entirety and cease to have effect from the commencement of dealing in the Shares on the Stock Exchange. On June 6, 2005, CGPE IV, L.P. transferred 3,585 Shares to Capital International Private Equity Fund IV, L.P. at US\$24.27 (approximately HK\$189.3) per Share. Capital International Private Equity Fund IV, L.P. is a private equity fund managed by Capital International, Inc. which is also the managing member of the general partner of CGPE IV, L.P. CGPE IV, L.P. is a limited partnership formed under the laws of the State of Delaware, U.S.A. for the purpose of allowing certain employees of The Capital Group Companies, Inc. and its affiliates to invest side-by-side with Capital International Private Equity Fund IV, L.P. The Capital Group Companies, Inc. is the ultimate parent company of Capital International, Inc. Capital International, Inc. is the investment advisor to Capital International Private Equity Fund IV, L.P.

The shareholding structure of the Company immediately after completion of the Global Offering and Capitalization Issue, assuming no exercise of the Over-allotment Option, no exercise of the options contemplated by the Share Option Scheme and no change in shareholding of each of the shareholders listed below subsequent to the Latest Practicable Date is as follows:



Notes:

1. Capital International Private Equity Fund IV, L.P. and CGPE IV, L.P. are regarded as public shareholders of the Company.
2. The percentage represents shareholding of all public shareholders other than Capital International Private Equity Fund IV, L.P. and CGPE IV, L.P.

CORPORATE STRUCTURE AND HISTORY

RELATIONSHIP WITH FAR EAST ASIA LIMITED

As at the Latest Practicable Date, Far East Asia Limited holds approximately 37.22% of the total issued share capital of the Company and is currently the controlling shareholder of the Company. Assuming no exercise of the Over-allotment Option and no change in number of Shares held by each of the existing shareholders of the Company prior to Listing, Far East Asia Limited is expected to hold approximately 27.91% of the total issued share capital of the Company immediately after completion of the Global Offering. As such, Far East Asia Limited will cease to be the controlling shareholder of the Company immediately following the Listing.

Far East Asia Limited, a limited liability company incorporated in BVI on May 3, 1995, is an investment holding company. The interest in the Company is Far East Asia Limited's only major investment. Mr. Ip Ping Im, a Director, is the sole beneficial owner of Far East Asia Limited.

The Directors confirm that the Group is financially independent from, and capable of carrying on its business independently of, Far East Asia Limited since (i) the Group does not conduct any business with Far East Asia Limited; (ii) Far East Asia Limited did not have any interest in any of the Group's top five suppliers or customers during the Track Record Period; (iii) the day-to-day operation of the Group is managed by the Board and the Group's senior management; and (iv) Far East Asia Limited has not provided any loan to or guarantee in favor of the Group during the Track Record Period. As at the Latest Practicable Date, apart from the 37.22% interest in the Company held by Far East Asia Limited, the remaining share capital of the Company is held by the other eight shareholders. The Directors confirm that it would be difficult for any one of the shareholders to dominate any decision in the Company's general meeting.

LOCK-UP ARRANGEMENT

All existing shareholders of the Company entered into a deed of lock-up in favor of the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters), and Citigroup Global Markets Limited and Morgan Stanley & Co. International plc (for themselves and on behalf of the other International Underwriters) on May 4, 2007. For further details of the deed of lock-up, please see the section headed "Underwriting — Underwriting arrangements and expenses — Deed of lock-up".

BUSINESS

OVERVIEW

We are a leading manufacturer of customized knitted fabrics with a focus on complex, value-added fabrics. We collaborate closely with apparel brand owners to design fabrics that meet customized order particulars. Our finished fabrics comprise more than 3,000 designs and specifications which we sell to garment manufacturers worldwide to produce garments for premium apparel brand owners. Our fabrics are used in a broad range of garments, including men's, women's and children's clothing, sportswear, swimwear and inner-wear. We have established relationships with owners of leading brands such as Calvin Klein, Maidenform, Triumph, UNIQLO, VF Intimates and Victoria's Secret.

Our principal manufacturing facility is a modern, integrated knitting, dyeing and printing facility in Panyu, China, with an aggregate floor space of approximately 294,400 square meters. We offer warp and weft knitting along with printing services. In 2004, as part of our strategy to expand our production volume and the geographic scope of our operations, we acquired a controlling interest in a knitting and dyeing facility in Avissawella, Sri Lanka, namely PT Sri Lanka, and have since expanded its annual production capacity.

The following table sets forth our annual revenue, operating profit, profit attributable to equity holders, operating margin, profit margin and sales volume for each year in the three years ended March 31, 2006 and the eight months ended November 30, 2005 and 2006:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
Selected income statement data:					
(in thousands of HK dollars, except sales volume data)					
Revenue	2,265,821	2,922,840	3,363,029	2,187,012	2,887,077
Operating profit	382,031	410,882	555,901	366,170	492,162
Profit attributable to equity holders					
of the Company	307,299	351,679	458,855	308,344	397,612
Selected operating data:					
Operating margin	16.9%	14.1%	16.5%	16.7%	17.0%
Profit margin	13.6%	12.0%	13.6%	14.1%	13.8%
Sales volume (million pounds)	90	112	126	82	106

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths position us to capitalize on significant opportunities to grow our business:

Strong growth prospects through multiple channels

The Company has access to multiple channels of growth through strategic development as well as products expansion. Our primary location in China positions us to capitalize on the continuing migration of the garment industry to Asia, particularly since China enjoys an advantage in the garment industry due to its abundance of raw materials and extensive logistics network. Our acquisition of a controlling interest in PT Sri Lanka has diversified our operations in Asia and offers additional growth potential. Moreover, we believe our ability to produce both warp and weft knitted fabrics positions us to meet growing demand for fabric produced with these processes.

Efficient production model driven by modern facilities and advanced technologies

We designed the layout of our modern Panyu facility and selected its equipment to enhance the efficiency and flexibility of our production processes and our profitability. Our management has recognized the importance of facility design to optimize operational performance and has implemented such designs

BUSINESS

at a greenfield site. Our China-based facility is strategically located in the Pearl River Delta region of southern China providing us with ready access to water. We intend to continue expanding and upgrading our facilities to further optimize our production processes. We also have additional available land nearby to allow expansion of our operations as needed. There is an on-site cogeneration power plant and wastewater treatment plant at our Panyu facility and we are in the process of building a new water recycling plant. Upon completion (currently expected in the second quarter of 2007), the new water recycling plant will increase the percentage of water we can recycle from approximately 10% to approximately 60%, allowing us to increase production without increasing our wastewater discharge.

We have also invested significantly in upgrading equipment as well as advanced technologies to enhance our manufacturing processes. For example, we implemented a dyeing methodology, “blind-dyeing,” that enabled us to phase out the use of a traditional dye master. Blind-dyeing has resulted in a high rate of color consistency in our dyed fabrics, a correspondingly low reprocessing rate and greater efficiency. We are also in the process of constructing an automated warehouse to further enhance our production processes.

We believe that the design of our facilities and our investment in advanced technologies have increased our production efficiency and contributed to the profitability of the Group.

Focus on value-added fabrics with higher margins

With our product development, technical expertise and production scale, we are able to produce customized, high value-added fabrics that command higher average selling prices and generate higher margins. For example, in 2005, we began manufacturing warp knitted fabric, a fabric commonly used in swimwear and inner-wear, and plan to expand our production capabilities for this and other such fabrics.

Established relationships with premium apparel brand owners

We believe our long-term relationships with brand owners are due in large part to our reputation for reliability, in terms of quality control and on-time delivery, dedicated customer service, ability to innovate and competitive product pricing. We have established strong business relationships with a broad range of premium apparel brand owners such as Calvin Klein, Maidenform, Triumph, UNIQLO, VF Intimates and Victoria’s Secret. Although these brand owners are not our direct customers, they generally play a key role in selecting the fabric suppliers. Accordingly, strong relationships with apparel brand owners are a critical factor to success in our industry.

Strong operating cash flow to support capital expenditures with substantial financial growth

Our strong operating cash flow supports our capital expenditure requirements while still permitting us to pay dividends. Our operations generated cash flow of HK\$18.7 million, HK\$546.6 million, HK\$566.6 million and HK\$368.6 million and our capital expenditures amounted to HK\$285.8 million, HK\$350.9 million, HK\$272.6 million and HK\$301.9 million for the years ended March 31, 2004, 2005, 2006, and the eight months ended November 30, 2006, respectively.

We have demonstrated strong historical financial growth, both in terms of revenue and net income. The Group’s revenue was HK\$2,887.1 million for the eight months ended November 30, 2006, representing an increase of 32.0% from HK\$2,187.0 million for the eight months ended November 30, 2005. For the eight months ended November 30, 2006, our profit attributable to equity holders of the Company was HK\$397.6 million, representing an increase of 29.0% from HK\$308.3 million for the eight months ended November 30, 2005.

Experienced management with proven track record

Our core management team has been with the Group since its inception in 1997. Our Chairman, Vice-Chairman and Chief Executive Officer have an average of over 30 years of industry experience. Drawing on experience in leadership positions at other leading fabric manufacturers in China, our management combines industry best practices with innovative ideas and advanced technologies to adapt quickly to changing industry and market conditions.

The management team's ability to execute its business plan is demonstrated by the 22% compound annual growth rate in revenue for the past three financial years and reflects the focus of our founders, executive Directors and senior management on enhancing profitability and creating shareholder value. Similarly, our management's success in acquiring an interest in, and subsequently improving the profitability of, our Sri Lanka operations highlights their ability to identify and exploit growth opportunities. After the completion of the Offering, our senior management will retain significant financial interest in the Group's business.

Ability to capitalize on migration of the garment and textile industry to Asia

Our primary location in China positions us to capitalize on the continuing migration of the garment industry to Asia, particularly since China enjoys an advantage in the garment industry due to its abundance of raw materials and extensive logistics network. Our China-based facility is strategically located in the Pearl River Delta region of southern China providing us with ready access to water. A significant portion of the textile industry value chain in China is concentrated in this region. The benefit of our location is the proximity to our customers and suppliers and the resulting lower distribution costs. Fabric suppliers in China benefit from ample supply of domestic yarn and competitive labor costs. We believe that we are well-positioned to benefit from further concentration of the garment manufacturing value chain in Asia and in particular, the Pearl River Delta region of China.

OUR BUSINESS STRATEGIES

Our principal business strategies are:

Expand and upgrade production facilities

To enhance our competitive position and increase profitability, we are selectively expanding our production facilities and upgrading equipment. We seek to identify equipment designed to enhance our production efficiency and capacity, shorten turnaround time and reduce labor and energy costs. We also seek to install equipment, such as fabric printing machines that enable us to enhance the ability to produce more complex, value-added fabrics.

We are in the process of implementing significant capital expansion projects at our Panyu facility, which are expected to be completed by the second quarter of 2007. These projects include: i) increasing the power generation capacity of our cogeneration plant, ii) significantly increasing our capacity for treating discharged wastewater with construction of a new water recycling plant and iii) expanding our existing wastewater treatment plant, upon obtaining the requisite permit. These additions form the foundation for future growth in production capacity. In this regard, we are also in the process of acquiring 88,842 square meters of additional land adjacent to our Panyu facility for projected expansion beginning in 2008. On December 15, 2006, we received a Construction Planning Permit from Guangzhou Urban Planning Bureau Nansha Branch for the additional land, which requires us to complete land use proceedings within one year of the permit. We are currently in the process of applying for such land use rights.

At our Sri Lanka facility, we are engaged in an expansion project which is expected to increase our production capacity. For further details refer to “— Expansion Plans”.

BUSINESS

Develop new warp and weft knitted fabrics and diversify fabric specifications

We intend to introduce additional value-added fabrics that generate attractive margins. In particular, we believe that warp knitted fabrics represent promising growth opportunities driven by increasing customer demand. We plan to continue increasing our manufacturing capacity of warp and weft knitted fabrics at Panyu.

We also seek to partner with and invest in businesses that manufacture different types of fabric. These partnerships enable us to study opportunities for future expansion. For example, in 2005, we acquired 33% interest in SPM Automotive Textile Co., Ltd., a joint venture with 住江織物株式會社 (Suminoe Textile Co., Ltd.) and 丸紅株式會社 (Marubeni Corporation), which manufactures car seat fabrics and serves automotive customers with operations in southern China. We believe this partnership capitalizes on the rapid growth of China's automotive industry and will better position us in China's automotive fabric industry. Similarly, in 2006, we established a 50/50 joint venture with Fillattice S.p.A., a leading elastic and spandex warp knit fabric manufacturer based in Italy, to enhance our capabilities in the warp knitted stretch and spandex fabrics markets.

Strengthen design and printing capabilities

We seek to deepen our customer relationships and increase our sales of high-value added fabrics by broadening our range of services. We are building design service capability to complement our manufacturing capability. We recently partnered with an Italian design company, Pubblicentro S.R.L. ("Pubblicentro"), an independent third party, to develop our print design capability and provide training to our employees. We employed Pubblicentro as our sales agent in Europe, the United States, Australia and South America to distribute printed fabrics designed through this partnership. We extended to Pubblicentro an interest-free loan of €100,000 (or approximately HK\$1,034,000) in March 2007 which is to be repaid by March 2008. The agreement is effective from January 9, 2007 for three years and may be renewed.

Enter new geographic markets

Although China is expected to remain an attractive base for the manufacture of knitted fabrics, we are also seeking to identify suitable opportunities to diversify the geographic scope of our operations. In 2004, we expanded our operations into Sri Lanka and managed to turn a loss-making entity into a profitable one within one year by introducing our expertise and best practices. Sri Lanka is an important location for garment manufacturing as it benefits from attractive trade arrangements with the European Union and United States. Moreover, as many of the brand owners we have relationships with employ garment manufacturers based in Sri Lanka, this investment improves our competitive position through geographic diversification and demonstrates our ability to operate effectively in other geographic regions.

OUR PRODUCTS AND SERVICES

We manufacture and supply more than 3,000 designs and specifications of knitted fabrics to garment manufacturers worldwide. We work in close partnership with apparel brand owners to design fabrics that meet individualized order particulars. Many of these orders require highly customized, complex design and production specifications. Our garment manufacturer customers in turn convert our knitted fabrics into finished garments for sale to the apparel brand owners.

BUSINESS

Weft knitted and warp knitted fabric

We specialize in making weft knitted and warp knitted fabrics from raw yarns or dyed yarns. Weft knitted fabric is often used for the production of lightweight apparel, such as T-shirts, polo shirts and sleepwear. Weft knitted fabric is knitted in one continuous row.

Warp knitted fabric, on the other hand, is knitted using vertical, horizontal and diagonal interlooping of yarns. This forms complex fabrics which range from very fine linings, stretch and compression fabrics, to heavy, sturdy fabrics. Warp knitted fabric is often used for the production of swimwear, inner-wear and non-apparel products such as car seats and other automobile upholstery. Warp knitting can also be used to make pile fabrics often used for upholstery.

Main fabric specifications

We manufacture warp knitted and weft knitted fabrics with more than 3,000 designs and specifications. These are classified mainly by knitting structure and type of finish. The table below sets forth a few of the many types of fabric that we commonly produce:

Name	Description	Typical End Use
Jersey	a plain light-weight single-knit fabric	T-shirt, inner-wear
Double-knit	fabric produced on a circular-knitting machine equipped with two sets of latch needles situated at right angles to each other	Turtleneck, polo shirt
Fleece fabric	fabric with a thick, heavy body resembling sheep's wool	Jacket, pullover
Jacquard	fabric with special texture or design pattern	Inner-wear
Lacoste	knitted fabric with a raised pearl-look surface	Polo shirt, golf shirt
Rib	plain double-knit fabric with good horizontal stretch and recovery	Tight-fit t-shirt
Striped	fabric of horizontal strip-pattern made by a series of colored yarns	T-shirt, polo shirt
Velour	plain knitted terry fabric with a sheared surface on one side and a smooth surface on the reverse	Pullover, jacket, pants
Polar-fleece	plain knitted fabric with both sides brushed and single side anti-pilling	Hooded jacket
Stretch fabrics	fabrics knitted with elastomers (spandex) to provide stretch properties	Inner-wear, t-shirt, swimwear
Functional fabrics	fabrics that incorporate value-added features such as moisture management, anti-microbial and anti-odor	Sportswear, golf shirt

Print design services

We recently began offering print design services to our customers, with a view to deepening our customer relationships and increasing our sales of high value-added fabrics. We partnered with an Italian design company, Pubblicentro, to design prints that we will manufacture for sale both by them and our Group in the world market. The agreement also provides that we will send up to four employees to Italy for training in print design and for the design company to provide technical advice to us on digital printing. We have employed Pubblicentro as our sales agent in Europe, the United States, Australia and South America to distribute print fabrics designed through this partnership.

MARKETING AND SALES

Marketing and customer relationships

We have two sets of sales and marketing relationships: our relationship with apparel brand owners, who are the end-users of our fabrics, and our relationship with garment manufacturers, who are our direct customers and purchasers of our fabrics. We have dedicated sales teams assigned to each brand owner account to provide frequent, personalized one-on-one contact in order to enhance our knowledge of and responsiveness to their specific needs and ensure full accountability for sales-related activities and customer service. As at the Latest Practicable Date, our sales team consisted of approximately 106 personnel, including 88 in Hong Kong and 16 in Sri Lanka. Our sales team visits the North America- or Europe-based offices of the brand owners periodically. In addition, for brand owners that maintain representative offices in the Asia-Pacific region, face-to-face meetings are conducted more frequently to enable us to handle specific requests or respond to issues in a timely manner.

Accordingly, our sales efforts primarily target leading brands with strong brand image and a high volume of business. We have developed and maintained long-term relationships with owners of internationally renowned labels such as Calvin Klein, Maidenform, Triumph, UNIQLO, VF Intimates and Victoria's Secret. Although these brand owners are not our direct customers, they generally play a key role in selecting the fabric suppliers. Accordingly, strong relationships with apparel brand owners are a critical factor to success in our industry.

Our sales are driven by our relationships with apparel brand owners and garment manufacturers. Brand owners usually drive the fabric procurement process. While we have no contractual arrangements with the brand owners nor do they impose any conditions on us, they generally work directly with us to determine the desired fabric specifications for their apparel collections to be used in the upcoming fashion season and to negotiate target fabric prices. In some cases, we discuss with brand owners the approximate volume of business that they expect to provide us during a year. We use this information to assist with our production planning. Garment manufacturers also purchase fabrics directly from us without any involvement of brand owners. These purchases generally involve fabrics with a more "basic" pattern or design, for which we compete primarily on price, lead time and on-time delivery.

While some orders involve basic fabrics with limited value-added features, many of our orders are for customized, complex fabrics that require a substantial degree of advanced production technologies and precision. For more complicated fabric orders, in addition to price, brand owners primarily base their selection of a fabric manufacturer on factors such as quality, service, delivery time and track record.

For the financial years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2006, our top five customers accounted for 26.9%, 28.6%, 30.4% and 32.2%, respectively, of our overall sales revenues. Sales to our largest customer accounted for 7.3%, 7.6%, 9.6% and 9.0%, respectively, of our overall sales revenue. MAS Group (which is one of our top five customers), by virtue of its indirect interest in PT Sri Lanka (which is our non-wholly-owned subsidiary), will be regarded as a connected person of the Company. Please see "Connected Transactions" for further details of the transactions between MAS Group and us. None of the Directors, their respective associates or, so far as the Directors are aware, the existing shareholders of the Company had any interest in any of the top five customers of the Group during the Track Record Period.

For the financial years ended March 31, 2004, 2005, 2006 and the eight months ended November 30, 2006, 36.0%, 46.8%, 53.7% and 50.8%, respectively, of our overall sales revenues were derived from five brand owners, with the top brand owner accounting for 9.8%, 14.1%, 17.1% and 19.2%, respectively. We have had four to nine years of relationship with these brand owners. None of the Directors, their respective associates or, so far as the Directors are aware, the existing shareholders of the Company had any interest in any of the top five brand owners during the Track Record Period.

Sales Process

Sales

Our sales team evaluates our production capacity before accepting a sales order. We do not have long-term written sales contracts with most of our customers. From time to time we enter into formal written contracts or order forms with garment manufacturers, but orders are also frequently accepted upon oral agreement or via email or fax. We believe this is consistent with the industry practice. We generally provide our customers with trade credit of 30 to 60 days. We recognize revenue on the sale of goods when products have been delivered to and accepted by the customer, when the collectibility of the related receivables is reasonably assured.

Pricing

Although price is an important factor to our customers, quality and service are equally important. Since brand owners specify fabric manufacturers, our sales teams often assist the brand owners in their pricing negotiations. Generally, this assistance takes the form of pricing guidance in relation to fabric specifications desired by the brand owners. Once brand owners decide on specifications, they will typically contact their preferred garment manufacturers and direct the use of our fabric in the garment production process. The garment manufacturers then send us sales orders reflecting the specifications discussed by the brand owners and us. While no explicit agreements exist binding garment manufacturers to the pricing guidance we provided to brand owners, all parties are aware that the pricing guidance is acceptable to the brand owners and the garment manufacturers who have been directed to us. Typically the pricing guidance is accepted by the garment manufacturers, although at times we may engage in further pricing negotiations with selected garment manufacturers. In some cases, we also negotiate directly with garment manufacturers for orders.

The prices of our fabrics are determined by taking into account factors such as prevailing market conditions, the level of our orders in hand, our inventory levels and prices of raw materials. This enables us to respond rapidly to changes in market conditions and allows us a degree of flexibility to pass on any increased costs of raw materials to our customers.

Post-sales customer support

We believe our reputation is key to the success of our business and we place importance on the quality of customer support that we provide. Therefore, each account enjoys a dedicated sales team that provides our customers with dedicated post-sales customer service. Our sales team is also responsible for the day-to-day handling of minor claims or complaints from existing clients and coordination with the production team for any necessary reprocessing of orders.

BUSINESS

PRODUCTION PROCESS AND FACILITIES

Production Process

Our production process is capital intensive rather than labor intensive as it is highly mechanized. We process cotton and synthetic yarn into weft knitted or warp knitted fabrics.

Our fabric production cycle can generally be divided into four processes: knitting, dyeing, printing and finishing, which are illustrated in the following diagram:

Knitting



Dyeing



Printing*



Finishing



* This step in the production process is not applicable to all fabric types.

Knitting

Samples of raw materials, including yarns, are checked by our quality assurance staff against international benchmark quality standards before production. In the production of weft knitted fabrics, cones of yarn, after winding, are put on creels to feed into circular knitting machines to knit the fabric. In the production of warp knitted fabrics, yarns are wound on a beam. The beam is put onto the knitting machine and yarns are fed from the beam to the machine for knitting. After knitting, the greige fabrics are inspected before being transported to the dyeing process.

Dyeing

In preparation for the dyeing process, fabrics are first treated in a scouring process to remove dirt and impurities. Chemicals and dyes are then added onto the scoured fabric for the dyeing or bleaching process. The duration of the bleaching and dyeing processes depends on the color shade and the raw materials being used. Dyed fabrics are then inspected by our quality assurance staff. Fabric that does not require printing will then be processed through the finishing step.

Printing

We believe that we are one of a few major fabric manufacturers in China with in-house printing capabilities. Customers submit pre-designed patterns to our design studio that we digitally capture and make into print screens. Patterns are separated by color such that one pattern usually requires multiple screens. These screens are either rotary or flat depending on the design specifications. Fabric is laid under the screens and sent through the printing process. The printed fabric is then finished under high-heat treatment. We may also use digital printing for smaller lot orders.

Finishing

The dyed fabrics may have pre-designed patterns added by pressing and calendaring under high temperature. The fabrics are then finished by treatment at high temperature to meet customers' requirements regarding the width, weight and shrinkage allowance of each order. Fabrics are inspected and packaged prior to shipping.

Production Facilities

Panyu Facility

Our principal manufacturing facility commenced operations in 1997 and was designed and developed to our specifications at a greenfield site in Panyu, Guangdong Province, in the heart of China's high-growth Pearl River Delta region. Our facilities are strategically located adjacent to a reliable water supply that provides a convenient source for water for the dyeing process and a jetty that facilitates affordable inbound transportation and unloading of coal. We have an on-site cogeneration power plant and are in the process of expanding its capacity. We also have a wastewater treatment plant and are currently constructing a new water recycling plant. Our knitting, fabric dyeing, printing and yarn dyeing processes are conducted in a facility with floor space of approximately 294,400 square meters.

The Panyu facility includes a captive cogeneration power facility with four coal-fired steam turbines which can produce approximately 41 megawatts of electricity for the plant. The plant provides sufficient electricity for the needs of the facility. To further maximize resources, we recapture the waste steam generated from coal consumption to facilitate the dyeing process. We can produce up to approximately 370 tons of steam for power generation, and subsequently, recapture most of the steam for use in our dyeing and production processes. We are engaged in discussions with an arm of the Nansha local government regarding potential cooperation to establish a network to supply excess steam generated by our captive power facility to other potential users in the vicinity and to manage such supply. We believe

BUSINESS

we are among the first PRC fabric manufacturers to have a dedicated cogeneration power production facility. Our coal supply is delivered to our Panyu facility via the Pearl River tributary adjacent to our plant.

In addition, we have an on-site wastewater treatment system that processes wastewater created during our production process through separate physical, chemical and biological treatment. Our water treatment plant efficiently produces a second source of energy for power generation by separating dischargeable water from sludge, a form of biofuel which is then transferred to our power plant to be used. We are in the process of building a new water recycling facility.

Production Volume

Actual production volumes are dependent upon a number of factors, including fabric specifications, order size and the number of different fabrics produced in a period.

In recent periods, the Panyu facility has generally operated on a round-the-clock basis, except for maintenance and certain public holidays. We believe that any material increases in the facility's production volume will require further investments in property, plant and equipment.

The following tables set forth certain annual production and related information for our Panyu facility:

	Period				
	For the year ended			For the eight months ended	
	March 31, 2004	March 31, 2005	March 31, 2006	November 30, 2005	November 30, 2006
Approximate output (millions of pounds)	93.6	108.9	121.4	78.5	106.7
Approximate annualized peak production (millions of pounds) ¹	111.4	121.2	148.0	90.9	119.1
Percentage approximate output represents of approximate annualized peak production (%)	84	90	82	86	90

Note:

- The annualized peak production is calculated from (1) averaging the highest monthly production volume in the first half of a particular financial year and the highest monthly production volume in the second half of the same financial year; and (2) multiplying such average by the number of months in the relevant period. Annualized peak production is not necessarily indicative of what we can actually produce in any period.

The Panyu facility's production volume in the eight months ended November 30, 2006 was approximately 106.7 million pounds, accounting for approximately 84% of the annualized peak production of the Group and representing an increase of approximately 35.9% over the production volume of approximately 78.5 million pounds in the eight months ended November 30, 2005.

To sustain our competitiveness and to meet increasing market demand, we have invested heavily in manufacturing technology and production facilities. Our Panyu facility operates weft knitting and warp knitting machines. In addition, we operate other machines for the various stages of our production process, including dyeing and finishing.

BUSINESS

Sri Lanka Facility

We obtained a controlling interest in a knitting and dyeing manufacturing plant in Sri Lanka in November 2004. This facility manufactures weft knitted fabrics exclusively. Since acquiring the facility, we have seconded senior management and technical staff to the facility and sought to optimize the production process, which has resulted in increased efficiency and profitability.

The facility currently operates weft knitting machines, as well as equipment for dyeing and finishing. As at the Latest Practicable Date, we do not operate printing facilities at our Sri Lanka facility.

Our facility is powered by Sri Lanka's public power supply network supported by two back-up diesel-powered generators.

We obtain water from facilities operated by the Board of Investment of Sri Lanka (BOI). Wastewater produced from our manufacturing process undergoes chemical treatment at our wastewater treatment plant prior to being transferred back to the BOI facilities for additional treatment and subsequent discharge into waterways. The BOI regulates the amount of water available to us. Limits on the amount of water available to us have been a principal constraint on our ability to increase production at our Sri Lanka facility. In August 2006, we were able to obtain from the BOI an increase of approximately 75% in our daily water quota. As described below under the caption "—Expansion Plans", we plan to enhance our wastewater processing capacity in order to permit increases in production by November 2007. Limits on the amount of water available to us could constrain our ability to increase production at our Sri Lanka facility in the future.

Production Volume

Since we acquired a controlling interest in the Sri Lanka operations, the facility has generally operated on a round-the-clock basis except for maintenance and certain public holidays. We believe that any material increases in the facility's production volume will require further investments in property, plant and equipment.

The following tables set forth certain annual production and related information at our Sri Lanka facility:

	Period			
	For the year ended		For the eight months ended	
	March 31, 2005	March 31, 2006	November 30, 2005	November 30, 2006
Approximate output (millions of pounds)	2.2	7.7	4.5	6.8
Approximate annualized peak production capacity (millions of pounds) ¹	2.4	9.9	5.3	7.7
Percentage approximate output represents of approximate annualized peak production (%)	92	78	85	88

Note:

- The annualized peak production is calculated from (1) averaging the highest monthly production volume in the first half of a particular financial year and the highest monthly production volume in the second half of the same financial year; and (2) multiplying such average by the number of months in the relevant period. Annualized peak production is not necessarily indicative of what we can actually produce in any period.

Sri Lanka's production volume in the eight months ended November 30, 2006 was approximately 6.8 million pounds, accounting for approximately 5% of the annualized peak production of our Group and representing an increase of approximately 51.1%, over the production volume of approximately 4.5 million pounds in the eight months ended November 30, 2005.

BUSINESS

EXPANSION PLANS

We are engaged in significant expansion projects at both our Panyu and Sri Lanka facilities. At the end of March 2007, we completed expansion of the capacity of our cogeneration power plant by adding another steam turbine, which increased our energy capacity from 26 megawatts to 41 megawatts. The principal elements of our current expansion plan at our facility in Panyu, China include the following:

- expanding the site through acquisition of adjacent land for which we will construct new buildings and install new equipment;
- constructing a new water recycling plant, which is expected to be completed in the second quarter of 2007;
- constructing an automated warehouse, which is expected to lower ongoing logistics costs, improve distribution efficiencies and reduce labor requirements;
- acquiring additional equipment to optimize production to satisfy expansion needs; and
- upgrading current information technology systems, such as our enterprise resources planning system, to enhance labor productivity.

At our production facility in Avissawella, Sri Lanka, we expect expansion to be driven by the expansion of the wastewater treatment system, the current principal limitation on our production. We have received approval from the BOI and plan to increase treatment of discharged wastewater by approximately 75% over the November 30, 2006 level by November 2007. In addition, we received approval on March 16, 2007 from the BOI for the lease of two additional parcels of land with a total area of approximately 49,100 square meters to be used for future expansion of our operations.

We also intend to selectively upgrade our equipment and technology on an ongoing basis. We seek to identify equipment specific to our production needs that will enhance our production efficiency, adjust for future changes in fabric specifications, improve turnaround time and reduce per unit labor and energy costs. We also seek to install equipment, such as digital printers, to increase our manufacture of more complex and value-added fabrics.

We expect to fund these expansion plans from the IPO proceeds and our internal resources. Please see “Use of Proceeds” section for more details.

QUALITY ASSURANCE

We believe that reliable delivery of quality fabrics to our customers is critical to our success. Accordingly, we focus on achieving high quality standards by implementing quality assurance procedures throughout our production process, from the purchase of raw materials through product packaging. Because of our quality assurance standards, we believe we enjoy a very low reprocessing rate for our knitting and dyeing production.

We believe that our fabrics are widely recognized for their quality in the textile industry both within and outside of the PRC. The table below sets forth the details on major certification we have received:

<u>Accreditation</u>	<u>Issuing Organization</u>	<u>Area of accreditation</u>	<u>Date of issue</u>
ISO9001:2000	BSI Management Systems – UK	Quality Assurance	August 15, 2001
ISO14001:1996	BSI Management Systems – UK	Environmental Management System	October 24, 2003
ISO14001:2004	Guangdong Zhongjian Certification Co. Ltd.	Environmental Management System	November 15, 2003
Oeko-Tex Certificates	Testex®	Quality Assurance	October, 2006

BUSINESS

Our quality control standards have been certified by a number of premium apparel brand owners which allow us to conduct quality testing on fabrics in our own laboratories, without the need to engage a third party laboratory.

Our quality control system incorporates the following principal features:

- *Purchase of raw materials:* Sample tests are conducted prior to the confirmation of orders to ensure quality. Sample tests are also carried out when raw materials arrive at the factory.
- *Production:* At each of our production areas, comprehensive tests and research analysis on the quality of the semi-finished and finished fabrics are conducted using international quality standards, with a view to ensuring that customers' specifications are adhered to. Since 1999, we have been certified each year under the Oeko-Tex Standard 100, which is used widely in the textile industry as a globally uniform testing and certification system. The Oeko-Tex Standard tests harmful substances in textile raw materials, intermediate, and end products at all stages of production. Only manufacturers who comply with strict testing and inspection procedures and provide verifiable quality assurance are allowed to place the Oeko-Tex label on their products. Moreover, if required by customers, the Four Point System can be adopted for the testing and quality control procedures of fabric.
- *Inventory storage:* We have established procedures to minimize derogation of product quality during storage and transportation.
- *Machinery and equipment management:* We carry out regular inspections and maintenance of our machinery and equipment to enhance reliability and product quality.
- *Sales:* Our sales force is responsible for handling customers' complaints and delivering timely communications regarding any customer feedback, especially feedback on product defects, to the production team.
- *Employee quality awareness and reward system:* We conduct periodic training on quality awareness and ongoing assessment of our employees' performance.

Over the course of our operations, we may pay our customers for compensation claims relating to product defects and certain other costs incurred by the customers such as laboratory testing fees.

The claims paid for the years ended March 31, 2004, 2005, 2006 and the eight months ended November 30, 2005 and 2006 were HK\$12.6 million, HK\$8.4 million, HK\$6.6 million, HK\$2.5 million and HK\$6.6 million, respectively, representing 0.6%, 0.3%, 0.2%, 0.1% and 0.2% of revenue, respectively. The provision for claims made during the years ended March 31, 2004, 2005, 2006 and the eight months ended November 30, 2006 were HK\$3.0 million, HK\$1.1 million, HK\$0.7 million and HK\$10.5 million, respectively.

RAW MATERIALS, ELECTRICITY AND WATER SUPPLY

Raw Materials

The principal raw materials used in our production of fabrics are yarns, dyes, chemicals and coal for our power plant, with yarn being the major raw material and accounting for a significant percentage of our cost of sales. The following table sets forth information about the cost of yarn for the periods indicated:

	Year ended March 31,			Eight months ended November 30,						
	2004	2005	2006	2005 (unaudited)		2006				
	Amount	% of Cost of Sales	Amount	% of Cost of Sales	Amount	% of Cost of Sales				
	(in thousands of HK dollars)									
Yarn	1,154,614	70.9%	1,587,498	69.5%	1,695,573	66.2%	1,103,260	66.4%	1,515,608	68.2%

Cotton, Synthetic and Blended Yarn

We use substantial quantities of both grey and dyed cotton yarns. We also use synthetic and blended yarns, including spandex, core-spun yarn, viscose blends, wool blends and synthetic blends, such as nylon/cotton and polyester/cotton. Fabrics incorporating spandex yarns are usually light to medium weight and flexible with general properties of stretch, comfort, shape-retention and shrinkage control. For the production of certain value-added fabrics, we use blended yarns incorporating advanced synthetic materials, which yield smooth, silky and light weight and easy dry properties when processed.

We purchase cotton yarns from China, India, Pakistan, Indonesia, Thailand and Europe. We purchase synthetic yarns from China, Japan, Taiwan, Korea, the United States and Europe. Generally, we seek to maintain sufficient amounts of yarn to cover approximately 30 to 60 days of existing order commitments.

Unfinished fabrics

We also supplement our internal fabric manufacturing capabilities from time to time by purchasing unfinished knitted fabrics from outside sources. The cost for unfinished fabrics was HK\$6.8 million, HK\$8.3 million, HK\$7.4 million and HK\$7.5 million for the years ended March 31, 2004, 2005, 2006 and the eight months ended November 30, 2006 comprising 0.4%, 0.4%, 0.3% and 0.3% respectively of our cost of sales. We then complete these fabrics with our dyeing, printing and finishing processes prior to sale. From time to time we sub-contract certain quantities of knitting to outside sub-contract knitters in order to meet demands and deliveries. We also sub-contract a limited portion of our printing requirements. The sub-contracting costs were approximately HK\$66.0 million, HK\$67.2 million, HK\$56.6 million, HK\$32.5 million and HK\$41.8 million respectively and accounted for 4.1%, 2.9%, 2.2%, 2.0% and 1.9%, respectively, of our cost of sales, for the years ended March 31, 2004, 2005, 2006 and the eight months ended November 30, 2005 and 2006.

We typically use purchase orders with subcontractors on an individual order basis. We have worked with more than 40 subcontractors, all independent third parties, since the start of our operations with an average relationship of three years. Our primary selection criteria are quality, reputation, price and reliability.

Dye chemicals

The chemicals we use in our dyeing process fall into the following categories: pre-treatment, dyeing, and post-treatment. The following table sets out the main types of dyeing chemicals we use in each category:

Category	Chemical
Pre-treatment	<ul style="list-style-type: none"> (i) Detergent/wetting agent (ii) Caustic soda (iii) Acetic acid (iv) Hydrogen peroxide
Dyeing	<ul style="list-style-type: none"> (i) Reactive dyes (ii) Disperse dyes (iii) Acid Dyes (iv) Basic Dyes
After-treatment	<ul style="list-style-type: none"> (i) Cationic fixing agent (ii) Nonionic/cationic softeners

Electricity

Our Panyu facility has a captive power plant with four steam turbines that can produce approximately 41 megawatts of power generation capacity for the plant providing sufficient electricity for our production needs. We built the captive power plant because the surrounding region was relatively undeveloped at the time when we first established our Panyu facility. While the electricity network in Panyu has since become more developed, we still rely on our captive power plant as it continues to provide a sufficient and reliable electricity supply for our production process. To date, our Panyu facility has not experienced any material interruptions in power supply. We purchase coal from domestic suppliers in China for the power plant. We typically purchase coal in advance of our expected needs, but do not enter into long-term supply contracts. Our Sri Lanka facility obtains electricity for its production process from the public power supply network. The cost of fuel was 5.2% of the cost of sales for the financial year ended March 31, 2006. For more details, please see “Business — Production process and facilities”.

Water supply

Water is required for the dyeing of fabrics. The tributary of the Pearl River adjacent to our Panyu facility supplies sufficient water for our production needs. We also source a certain amount of water from the public water supply, approximately 1.0 million, 0.9 million and 0.8 million cubic meters of water in calendar years 2004, 2005 and 2006, respectively. We consumed approximately a total amount of 6.2 million, 6.8 million and 7.2 million cubic meters of water from both the public water supply and the Hongqili Watercourse (洪奇瀾水道) in calendar years 2004, 2005 and 2006, respectively, and discharged the same amount of wastewater in those same years. According to the Guangzhou Pollutants Discharge Permit we have obtained from the People’s Government of Guangzhou, we are permitted to discharge 202.0, 404.0 and 363.6 tons of COD (化學需氧量), a measure of pollutants in wastewater, for each calendar year ended 2004, 2005 and 2006. We have a water treatment system on-site for purifying incoming river water and treating wastewater. The maximum capacity of our current water treatment plant for each of the calendar years 2004, 2005 and 2006 was approximately 20,000 cubic meters per day. Beginning December 2006, the maximum capacity increased to approximately 40,000 cubic meters per day. We are currently permitted to discharge approximately 33,000 cubic meters of wastewater per day.

We hold a water collection license, which is valid until December 31, 2008, from Panyu Water Conservancy Office (廣州市番禺區水利局), and we are required to pay a nominal fee of RMB0.0325 (approximately HK\$0.0326) per cubic meter of water intake from the tributary to Guangzhou Water and Environmental Protection Bureau. Under the terms of our water collection license, we have been approved to withdraw 7.0 million cubic meters of surface water per annum from the Hongqili Watercourses. According to the Regulations on the Administration of Water Collection Approval and Water Resources Fees Collection (《取水許可和水資源費徵收管理條例》), this amount of water is the greatest quantity on average an approved entity may withdraw from rivers, lakes and groundwater. We do not need a license to withdraw water from the public water supply and we currently pay RMB1.05 per cubic meter of water.

For our Sri Lanka facility, we obtain our water supply from the BOI. Currently, the BOI provides us up to 2,000 cubic meters of water per day for which we are required to pay US\$0.48 (approximately HK\$3.74) per cubic meter of water. We consumed approximately 505,217, and 600,122 cubic meters of water for the calendar year ended December 31, 2005 and the eleven months ended November 30, 2006, respectively, and discharged the approximate same amount of wastewater in those same periods.

We are currently close to our Sri Lanka water discharge capacity and are planning to expand such capacity. For further details, please see “— Expansion Plans”.

SUPPLIERS

We maintain good relationships with suppliers and have, where possible, diversified our supplier base so as to avoid disruption in raw materials supply. Cotton yarn, synthetic yarn and most other raw materials are staple goods that are readily available. Yarns are available from numerous domestic and international suppliers. However, certain branded yarns are available only from sole suppliers. To the extent brand owners direct the use of such branded yarns, they are aware of the risk that we may be unable to secure an adequate supply on favorable terms or in a timely manner, and that in such cases we may increase the price charged to fill orders or decline to fill additional orders if substitutes are not acceptable.

We have not, to date, experienced any significant difficulties in obtaining any of our raw materials to meet production demands in a timely manner.

For each of the financial years ended March 31, 2004, 2005 and 2006, and for the eight months ended November 30, 2006, purchases from our top five suppliers accounted for 25.7%, 19.6%, 22.3% and 19.6%, respectively, of our overall cost of sales. During these periods, purchases from our largest supplier accounted for 7.0%, 6.1%, 5.7% and 5.2%, respectively, of our overall cost of sales. We generally enjoy trade credits of 30 to 60 days from our suppliers. None of the Directors, their respective associates or the existing shareholders, insofar as the Directors are aware, had any interest in any of our five largest suppliers of the Group during the Track Record Period.

INVESTMENTS IN OTHER COMPANIES

In addition to our production facilities in Panyu and Sri Lanka, we have also invested in several other companies in the fabric business:

Fillattice-Pacific Limited

In April 2006, we established a 50/50 joint venture company, Fillattice-Pacific, with Fillattice S.p.A. to engage in the sales and marketing of specialty warp-knitted fabric in the Asia-Pacific region. Fillattice-Pacific was incorporated in Hong Kong on May 25, 2006, and is owned as to 50% by Solid Ally International Ltd., a wholly-owned subsidiary of the Company, and as to 50% by Fill-HK Holding B.V., an affiliate of Fillattice S.p.A. with each subscribing to 1,950,000 shares in Fillattice-Pacific at HK\$1 per share. Under the joint venture contract, each of Fillattice S.p.A. and us is entitled to appoint two directors. Also, we are entitled to dividends on a yearly basis in proportion to our respective shareholdings. The fabrics marketed by Fillattice-Pacific are manufactured at our Panyu plant as part of the warp knit production, using Linel brand spandex, a trademark owned by Fillattice Group. The strategic alliance provides us with access to new markets and processing know-how while helping Fillattice S.p.A. to maintain competitiveness through lower costs. We hold our equity interest in Fillattice Pacific through Solid Ally International Limited, our wholly-owned subsidiary. Fillattice S.p.A., our joint venture partner, is a company in the Fillattice Group, an industrial corporation producing elastomeric fiber, stretch fabrics and covered yarns. Our share of the losses of Fillattice-Pacific for the eight months ended November 30, 2006 was HK\$191,000.

SPM Automotive Textile Co., Ltd.

In 2005, we entered into a joint venture agreement with 住江織物株式會社 (Suminoe Textile Co., Ltd.) and 丸紅株式會社 (Marubeni Corporation) to manufacture fabrics for the automotive textiles market, whereby we established SPM Automotive Textile Co., Ltd. ("SPM Automotive"). SPM Automotive was incorporated in the PRC as a wholly foreign-owned enterprise in September 2005, and is owned as to 55% by 住江織物株式會社 (Suminoe Textile Co., Ltd.), as to 33% by Pacific SPM Holdings Ltd., a wholly-owned subsidiary of the Company, and as to 12% by 丸紅株式會社 (Marubeni Corporation), with each contributing US\$2,750,000 (approximately HK\$21,450,000), US\$1,650,000 (approximately HK\$12,870,000) and US\$600,000 (approximately HK\$4,680,000), respectively.

BUSINESS

Under the joint venture agreement, we are responsible for, among other things, staffing the joint venture, providing relevant facilities and raw materials and assisting in sale of products. Suminoe Textile Co., Ltd. is responsible for, among other things, manufacturing products and providing guidance for operational procedures and product quality standards. Marubeni Corporation is responsible for, among other things, procuring raw materials and assisting in the operation of the joint venture and sale of products. The parties shall share the profit derived from the joint venture in proportion to their respective shareholdings. Our share of the losses of SPM Automotive for the year ended March 31, 2006 and the eight months ended November 30, 2006 were HK\$272,000 and HK\$695,000, respectively.

The joint venture captures market opportunities in the automotive industry, in particular the Japanese car manufacturing facilities in Guangzhou and other nearby parts of China that use just-in-time manufacturing systems with which our operations are consistent. We believe the joint venture allows us to expand into non-apparel textile manufacturing and learn the best practices of Japanese manufacturing systems. We hold our investment in SPM Automotive through Pacific SPM Holdings Ltd., our wholly-owned subsidiary. Suminoe Textile Co., Ltd. is a handicraft fabrics manufacturer in Japan that produces specialty fabric such as floor coverings and seat coverings and is listed on the Tokyo Stock Exchange. Our other joint venture partner, Marubeni Corporation, engages in the trading of industrial and consumer goods and is listed on the Tokyo Stock Exchange.

Fillattice-Pacific and SPM Automotive are classified as associates of our Group. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Our Group's share of the associates' post-acquisition profits or losses is recognized in our Group's income statement, and our Group's share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When our Group's share of losses in an associate equals or exceeds our Group's interest in the associate, including any other unsecured receivables, we do not recognize further losses, unless we have incurred obligations or made payments on behalf of the associate. Unrealized gains on transactions between us and our Group's associates are eliminated to the extent of our Group's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

On our Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by our Company on the basis of dividends received and receivable.

Our investments in Fillattice-Pacific and SPM Automotive are part of our overall strategy to expand further into the stretch fabric and warp knitted fabric markets, as well as expand into non-apparel textile markets. We will consider additional strategic joint-ventures in the future should suitable opportunities arise.

COMPETITION

We operate in a highly competitive industry. We compete with a large number of fabric manufacturers, including Texwinca Holdings Limited, Fountain Set (Holdings) Limited, Victory City International Holdings Limited and other competitors in the PRC, and from other countries. Some of these competitors are larger than us. Although we may face competition from new entrants in the future, we believe that the high capital requirements, increasing technology requirements and the importance of customer relationships pose significant barriers to entry for new competitors.

Principal areas of competition in our industry

We believe the following are the principal areas of competition in our industry:

BUSINESS

Service

We compete on the basis of the quality and reliability of our customer service. Because our business is largely driven by end purchasers of garments made with our fabrics, rather than the garment manufacturers who are our direct customers, we must provide a high level of service to both end purchasers and our direct customers. Quality of service includes reliability in meeting delivery deadlines, responsiveness and flexibility in meeting customer requirements. We seek to enhance our competitive position by offering a broad range of products to deepen our relationships and serve as a “one-stop shop” for end purchasers of the garments made with our products.

Product Quality

The quality of our fabrics is an important competitive factor, and we seek to meet or exceed the requirements of our customers and brand owners.

Product Pricing

Price remains an important competitive factor for the majority of our fabrics, especially fabrics that can be readily produced by a large number of our competitors. We believe our efficient production model driven by modern facilities and advanced technologies translates into competitive pricing terms for our customers. For more details, please see “Business — Sales Process”.

Other business interests of a non-executive Director

Based on the confirmation of Mr. Lau Yiu Tong (“Mr. Lau”), who is a non-executive Director of the Company and a minority shareholder in two companies, FSTBC, in which he holds a 20% interest, and FSTO, in which he holds an 8% interest (together with FSTBC, the “FST Companies”), the FST Companies are engaged principally in trading of fabrics, sewing threads and garments primarily in British Columbia and Ontario, Canada. Mr. Lau has held his interest in FSTBC since January 1996 and his interest in FSTO since May 1996. Mr. Lau was a director and president of FSTO from May 1996 to April 2006. Mr. Lau was also a director and president of FSTBC from April 1993 to April 2006. Mr. Lau resigned from all these positions of his own volition and has confirmed that he has no intention to participate in the management of either of the FST Companies, and has not had any such role or participation since his resignation. As at the Latest Practicable Date, Mr. Lau is neither a director nor an employee of either of the FST Companies, and he does not participate in the management of or render any service to either of the FST Companies.

The balance of the issued capital stock of FSTBC is held by Fountain Set (Holdings) Limited (as to 80%) and the balance of the issued capital stock of FSTO is held by Fountain Set (Holdings) Limited (as to 51%) and Mr. Peter Kwan (as to 41%). Each of Fountain Set (Holdings) Limited and Mr. Peter Kwan is an independent third party of the Group. There has been no business relationship between either of the FST Companies and any member of the Group during the Track Record Period. The Group’s sales to Canada for each of the three years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2006 were approximately HK\$29.1 million, HK\$6.8 million, HK\$12.0 million and HK\$12.4 million, representing approximately 1.28%, 0.23%, 0.36% and 0.43% of the Group’s total revenue during the relevant period. Based on the foregoing, the FST Companies and the Group are engaged in different businesses and have substantially different target markets. Having made enquiries of Mr. Lau and on the basis of information provided by him, the Directors confirm that there is no material competition between either of the FST Companies and the Group.

Pursuant to the Articles, a Director is not entitled to vote on (nor is counted in the quorum) in relation to any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he or any of his associates (including any person who would be deemed to be an “associate” of the Directors under the Listing Rules) has any material interest, except in certain special

BUSINESS

circumstances. The chairman of the Board meeting is required to ensure that each Director is aware of such requirement at the commencement of each Board meeting and declaration of interest is properly made in the Board meeting where conflicts of interest arise. For further details in this respect, please see “Appendix V — 2. Articles of Association — 2.2.6. Disclosure of interest in contracts with the Company or any of its subsidiaries”. Furthermore, Mr. Lau will abstain from attending the directors’ meeting on any matter concerning the FST Companies where conflicts of interests arise.

As at the Latest Practicable Date, none of the Directors (including Mr. Lau) nor senior management of the Group holds any position in Fountain Set (Holdings) Limited nor its subsidiaries (including the FST Companies).

Save as disclosed above, no Director has any interest in any business which competes or is likely to compete with the business of the Group.

RESEARCH AND PRODUCT DEVELOPMENT

As at the Latest Practicable Date, our research and development team consisted of 47 experienced researchers led by Dr. Lam King Man, who has a Ph.D. from the Postgraduate School of Colour Chemistry and Colour Technology at the University of Bradford, United Kingdom and over 25 years of industry experience. Our research and development efforts focus on developing new fabrics and styles to meet specific styling requirements or other specific properties, such as insulation, weight, strength, and support as well as improving fabric quality and production efficiency. We sometimes collaborate with our customers to produce new fabrics.

We develop new fabric constructions, patterns, textures and colors to meet our customers’ specifications. We have equipment in our facilities dedicated to sample manufacturing where we test new fabric concepts for actual end-use products. Extensive evaluation of a fabric is conducted to ensure chemical and physical property consistency prior to committing fabrics to production. Fabrics are sometimes introduced in cooperation with a brand owner, in which case we test run the fabric and turn it over to a garment manufacturer, who uses it to make garments for test sales by brand owners. Based upon the results of internal evaluations and retail tests, new fabrics are introduced into the marketplace. We also focus on developing innovative fabrics with value-added features, including encapsulated fragrance and skincare finish, anti-bacteria, anti-odor, UV protection, moisture management, micro-fiber and stretch fabrics.

We work closely with our customers to ensure product quality and our research and development team plays an important part in developing processes to meet quality standards.

We also direct research and development efforts to improving production efficiency, such as our blind dyeing method which has reduced the color reprocessing rate in our dyeing process.

ENVIRONMENTAL ISSUES

We are committed to conducting our operations in compliance with applicable environmental laws and regulations. We take steps to ensure that waste and by-products produced as a result of our operations are properly disposed of so as to minimize adverse effects to the environment. Some garment manufacturers require that our operations comply with local regulations, including environmental regulations. Our operations are in compliance with their requirements and we have not experienced any penalties or contract cancellations due to these requirements. Recently, we have experienced an environmental incident at our Panyu manufacturing facility. For additional details regarding such incident, please see “Other Information — 11. Environmental incident at our Panyu facility” in Appendix VI to this prospectus.

Our expenditure for environmental compliance is currently approximately HK\$35 million for the calendar year 2006 and primarily relates to the expenses incurred by our water treatment facilities in Panyu and Sri Lanka.

Panyu Facility

We have on-site wastewater treatment facilities to treat waste discharged during the production process.

We are subject to a variety of national and local environmental rules and regulations that impose limitations on the discharge of pollutants into the air and water and establish standards for the treatment, storage and disposal of solid and hazardous wastes. Our production sites in the PRC are also subject to regulation and periodic monitoring by the national and local environmental protection authorities.

Our manufacturing processes produce chemical wastes, liquid wastes, wastewater and other industrial wastes in various stages. Measures we have implemented to treat pollutants generally include the following:

- *Wastewater:* Wastewater is treated through physical, chemical, and biological disposal measures such as chemical reaction pools, waste water disposal systems, filtration systems and aeration tanks. The applicable standards with which we comply include the 1st Class Standard (First Time Period) Maximum Amount of Waste Water Discharging (DB4426-2001) (Local standard of Guangdong Province). Currently, approximately 10% of the treated water is recycled and reused. We are also building a new water recycling plant with construction expected to be completed in the second quarter of 2007. With this new plant, we will be able to recycle up to approximately 60% of the treated water.
- *Sludge:* Sludge, which is produced from the wastewater treatment, is transferred to the power generator to be recycled as biofuel and a second source of energy. No sludge is discharged from this process.
- *Noise:* Noise pollution is minimized by installing shields and mufflers and other shock absorbing equipment and by decreasing audible vibrations caused by manufacturing equipment. The applicable standards with which we comply include the 3rd Class Standard of Noise of Industry Factories (GB12348-90).

Furthermore, water discharge pipes have been re-routed so that discharged water will be treated by our water recycling plant. After treatment, approximately 10% of the treated water is recycled for use in our production process, thereby reducing the volume of water discharged. We also monitor the latest developments in available technologies and their feasibility for use in our operations from time to time.

Expansion of our operating facilities within the PRC is subject to environmental regulations. Under the relevant PRC laws and regulations, we are required to submit an environmental impact assessment to the local environmental protection bureau for approval before undertaking construction of any new production facility or major expansion or renovation of an existing production facility. The pollution control facilities should be designed, constructed and operated at the same time as the major facilities under construction. The construction project will not be permitted to use the facilities or commence operations unless the environmental protection administration department which reviews the environmental impact assessment has determined these facilities to be satisfactory. If the necessary approvals are not obtained for a facility, relevant PRC governmental authorities may order the suspension of operations at such facility or take regulatory or legal action resulting in the imposition of fines and/or other penalties.

Similarly, in respect of our operating facilities, including the captive power plant, in Panyu, Guangdong Province, we must obtain permits for the discharge of pollutants including any liquid or gas pollutants, solid waste, noise or radiation (in accordance with the Guangdong Provincial Administrative Rules on Pollutants Discharge Permits 《廣東省排放污染物許可証管理辦法》). According to the provisions of the Guangdong Provincial Administrative Rules on Pollutants Discharge Permits and the Administrative Licensing Law (《行政許可法》), the holder of the Pollutants Discharge Permit shall submit its renewal applications 45 days prior to expiration. The certificate can be renewed if the amounts of all pollutants discharged do not exceed the national and local emission standards and the indicators for total volume of pollutants discharged.

BUSINESS

Any enterprise that discharges pollutants must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment. The local environmental protection bureau will determine an amount of discharge allowable under the law and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. If an enterprise discharges more than is permitted by the pollutant discharge license, the local environmental protection bureau can fine the enterprise up to several times the discharge fees payable and require the enterprise to take measures to remedy the problem within a prescribed time frame, or failing that, to close its operations.

China has adopted extensive environmental laws and regulations. Enterprises producing pollutants and other hazards are to include environmental protection plans in their operations and to establish an environmental protection responsibility system in accordance with the PRC Environmental Protection Law. In addition, these enterprises should adopt effective measures to control and prevent waste gases, waste water, waste residue, dust, malodorous gases, radioactive substances and noise, vibration and electromagnetic radiation produced in construction or other activities from polluting and damaging the environment.

The Law of the People's Republic of China on Prevention and Control of Water Pollution (《中國人民共和國水污染防治法》) (the "Water Pollution Preventive Law") establishes legal standards for the prevention and control of the pollution of rivers, lakes and other surface water bodies and of underground water bodies within China. If the Water Pollution Preventive Law is violated, the administrative departments of environmental protection may impose warnings, fines, or orders to suspend production or even orders to close the business of violators.

In addition, if we fail to comply with any of the relevant PRC or provincial environmental regulations, the relevant PRC or provincial governmental authorities, as applicable, may require the suspension of non-compliant activities, require that the non-compliant activities be brought into compliance, issue warnings or impose fines.

Pursuant to the provisions of the Guangdong Provincial Administrative Rules on Pollutants Discharge Permits, the relevant PRC authority may impose penalties on any company with business activities that are not in compliance with applicable PRC laws and regulations. The Guangdong Provincial Rules on Environmental Protection provide, among other things, that (a) the relevant PRC authority may order a company that has failed to obtain a pollutants discharge permit to stop discharging pollutants and may also impose fines on such company; and (b) the relevant government authorities above county-level may order a company to shut down its operations if such company has caused severe environmental damage or failed to stop discharging pollutants within the stipulated deadline.

Although the above rules and regulations provide guidelines on applicable fines or penalties against delinquent companies, the relevant PRC authorities are also empowered to exercise wide discretion on a case-by-case basis to determine the exact amount of fines or penalties to be imposed on a particular company.

We have obtained the required permits for the discharging of pollutants from the relevant authorities. We were permitted by the relevant governmental authorities to discharge 202.0, 404.0 and 363.6 tons and discharged 149.0, 253.5 and 329.3 tons of COD for each of the calendar years ended 2004, 2005 and 2006, respectively.

We have obtained the Guangzhou City Pollutants Discharge Permit from the People's Government of Guangzhou for the discharge of liquid or gas pollutants, solid waste and noise in accordance with the Guangdong Provincial Administrative Rules on Pollutants Discharge Permits issued by the Environmental Protection Bureau of Guangdong Province (廣東省環境保護局).

BUSINESS

In April 2007, a third party contractor employed by us had caused wastewater to be released from our Panyu manufacturing facility. As a consequence of our contractor's act, we are required by the relevant PRC governmental authority to implement certain preventive measures at our facility. The estimated cost of these measures is not expected to exceed RMB200,000. No fines have been imposed. See "Appendix VI — Other information — 11. Environmental incident at our Panyu facility" for further information regarding this incident. Notwithstanding the foregoing, we confirm that we are in compliance with the relevant PRC environmental laws and regulations in all material aspects, and, during the Track Record Period, have not experienced any material environmental pollution incidents nor exceeded the limit for the discharge of pollutants as permitted.

For our establishment, we obtained the Reply on the Environmental Impact Assessment on the Construction of Spider Pacific (Panyu) Textiles Limited (《關於互通太平洋(番禺)紡織印染廠建設項目環境影響報告書的批復意見》) issued by the Panyu Environmental Protection Bureau (番禺市環境保護局) on March 25, 1998. For our expansion, we obtained the Reply on the Environmental Impact Assessment on the Further Construction of Pacific (Panyu) Textiles Limited (《關於互太(番禺)紡織印染有限公司增資擴建項目環境影響報告書的批復》) issued by the Guangzhou Environmental Protection Bureau (廣州市環境保護局) on September 1, 2005. Our PRC legal advisers have advised that we have all licenses, permits or certificates necessary for our establishment and expansion projects. Also, we have obtained confirmation from the Water and Environmental Protection Bureau of Guangzhou Nansha District (廣州市南沙區水務和環境保護局) that during the Track Record Period our discharge of pollutants was in compliance with the national and local discharge standards, and confirm that during the Track Record Period no administrative penalty was imposed on the Group as a result of violation of environmental rules and regulations.

To fulfill our future expansion and the environmental requirements, we plan to construct an additional water treatment plant, to be completed in 2008. We plan to fund the construction with our internal resources and a portion of the IPO proceeds. The operating expenditure includes staff costs, consumable stores, depreciation, repair and maintenance, utilities and water discharge fees. A senior manager of our Panyu operation, Mr. Zhao Qi Zhi, will be responsible for overseeing the day-to-day operations of the plant and monitoring the latest developments in available technologies and their feasibility for use. Mr. Zhao has more than 15 years of experience in the textile industry.

Sri Lanka Facility

Our Sri Lanka operations are subject to environmental regulations under the respective rules of Sri Lanka and, in certain cases, as determined by the relevant governmental authorities, must obtain permits for the discharge of pollutants.

The National Environmental Act No. 47 of 1980 sets out that any person who carries out any activity without a license issued by the Central Environmental Authority ("CEA") or in contravention of the standards and other criteria prescribed by the act, shall be guilty of an offense and, if convicted, will be liable for a fine not less than Rs. 10,000 and/or a term of imprisonment of not less than one year. The fine imposable and the term of imprisonment vary depending on the degree and category of pollution.

The “polluter pays” principle is statutorily recognized in Sri Lanka. According to the said principle, the person who pollutes shall pay the cost to remedy the damage caused by such pollution. According to sections 23H and 23K of the National Environmental Act, with regard to the pollution of inland waters of Sri Lanka and the atmosphere respectively, the court is empowered to order such person who pollutes be convicted of an offense and to bear the expenses that may have been incurred by the CEA to remedy the damage already caused as a consequence of such offense.

Moreover, pursuant to section 24B(1), the CEA has the power to issue directives to any person engaged in any development project or scheme which causes or is likely to cause damage or detriment to the environment, regarding the measures to be taken in order to prevent or abate such damage or detriment, and it shall be the duty of such person to comply with such directive. Pursuant to section 23A(4), if any person convicted under 23A(3) for carrying out a business without a license or in contravention of the standards prescribed continues to carry on such activity, the court is empowered, upon the application by the Director General of Environment, to order the closure of the factory or premises in which such activity is carried out. Pursuant to section 24A(1), any authorized officer can at any time enter into any land or premises and (i) examine and inspect equipment or industrial plant; (ii) take samples of any pollutants emitted, discharged or deposited from such equipment or industrial plant; and (iii) examine any books, records or documents relating to the performance or use of such equipment, or industrial plant or relating to the emission, discharge or deposit from such equipment or industrial plant.

Also, according to section 24B(2), if such person engaged in any development project or scheme which causes or is likely to cause damage or detriment to the environment, fails to comply with any directives issued under section 24B(1), the court is empowered, on the application of the CEA, order the temporary suspension of such project or scheme until such person takes the measures specified in the directive.

We applied for and obtained an Environmental Protection License from the CEA which is valid from August 14, 2006 to August 13, 2009. The license permits our facility to discharge or deposit waste and emit noise or air pollutants. We have limited our production of such pollution to allowable limits in accordance with the standards and criteria prescribed by the national environmental regulations. Personnel involved in monitoring and managing our environmental compliance include a manager of engineering, a process engineer and an assistant manager of human resources and systems. We have taken measures to minimize our production waste and pollution through wastewater treatment processes such as color removal, neutralization and separation of solids from water in accordance with the requirements of the BOI. If we fail to comply with the requirements, we may have to suspend non-compliant operations, bring such activities into compliance, receive warnings or be fined. We confirm that we are in compliance with the relevant Sri Lanka environmental laws and regulations in all material respects, have not experienced any environmental pollution incidents nor exceeded the permitted limit for the discharge of pollutants and no administrative penalty was imposed on the Group as a result of violation of environmental rules and regulations during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, according to our Sri Lanka counsel, we have been in compliance with Sri Lanka’s environmental regulations.

INFORMATION TECHNOLOGY

Our ERP system, with bar-coding capability, provides support for our operational and resources management, as well as systems control of our production facilities. It also facilitates order and production capacity analysis and handling. The production cycle, from the procurement of raw materials, manufacturing, quality control, to warehousing and transportation, is traceable through our ERP system. The on-line ERP system allows our sales staff 24-hour access to our sales and production information via the corporate network.

BUSINESS

We also utilize an optical fiber network and satellite services for data transfer. These initiatives have resulted in a dynamic and effective management of the logistics operations, which offers quick responses and flexibility to customers in terms of order handling and manufacturing.

INSURANCE

We maintain insurance policies with independent third parties that cover our production facilities in Panyu and Sri Lanka. These policies cover losses arising from fire, flood and other natural calamities in respect of buildings, machinery, equipment and inventory. On March 6, 2005, a fire occurred in one of the production plants at our Panyu facility, resulting in approximately HK\$16.8 million in total damages to our buildings, machinery and raw materials. The total damages related to plant and machinery, building and raw materials of HK\$5.8 million, HK\$4.4 million and HK\$6.6 million, respectively, were charged to the income statement for the year ended March 31, 2005. The fire accident did not halt our operations and no injury or death resulted from this incident. Claims from customers for compensation, which were subsequently settled, amounted to HK\$0.8 million. No customer claims remain outstanding. The aggregate amount of damages and compensation to customers exceeded our total insurance compensation by HK\$0.4 million. We have taken a number of measures to enhance our fire detection and prevention plan, such as replacing all ventilation pipes with zinc-coated steel ventilation pipes, applying more stringent rules in respect of storing flammable and combustible materials, conducting periodic employee awareness trainings and regular fire drills as well as the installation of fire prevention equipment. We also maintain public liability insurance to insure against losses related to accidental bodily injury to any person and accidental loss of, or accidental damage to, property in connection with our trade. During the Track Record Period, we did experience a number of minor injuries at work for which our workers required medical treatment. To avoid delay in treatment, we pay the medical expenses for our workers and lodge claims against the insurance companies. The claims recoverable from the insurance companies in respect of staff medical expenses in the sum of HK\$53,000, HK\$277,000 and HK\$191,000 as at March 31, 2004, 2005, 2006, respectively, have been received while claims recoverable as at November 30, 2006 in the amount of HK\$483,000 have not been fully recovered.

We do not maintain business interruption insurance in Panyu. However, we have not experienced any material business interruptions since we commenced our operations in 1997.

We also do not maintain product liability insurance, principally because we do not consider such insurance coverage to be required for the operations of our Group, as we have not had any material product liability claims made against us in the past; and our products are subject to stringent internal quality control and inspection processes prior to delivery to our customers. We believe that we have sufficient insurance coverage for our assets.

EMPLOYEES

As at the Latest Practicable Date, we employed approximately 6,721 full-time employees, 5,850 of whom are based in China, 683 in Sri Lanka and 177 in Hong Kong. The following table shows the breakdown of our employees by functions and locations as at the Latest Practicable Date:

	<u>Hong Kong</u>	<u>Panyu</u>	<u>Sri Lanka</u>	<u>Others</u>	<u>Total</u>
Production	30	4,621	612	1	5,264
Sales and Marketing	88	–	16	2	106
Research and Development	–	47	–	–	47
Management and Administration .	59	1,182	55	8	1,304
Total:	<u>177</u>	<u>5,850</u>	<u>683</u>	<u>11</u>	<u>6,721</u>

We have not experienced any labor shortages and believe that our remuneration package and benefits are competitive and promote staff retention.

In accordance with local government requirements, we have a worker's union in our Panyu facility that is not currently active, and submit membership dues to the local union. In our Sri Lanka facility, we do not have a worker's union, but we have established a Joint Consultative Committee which represents our employees and management. We believe that our management policies, working environment and the employee development opportunities and benefits extended to employees have contributed to good employee relations and employee retention.

We provide training programs for our employees to equip them with the skills and knowledge relevant to their work. This is done through various internal and external training courses as well as overseas technical training programs. We have also implemented programs to recognize employees' efforts to achieve customer satisfaction and our quality goals.

The remuneration package of our employees includes salary, bonuses and allowances. We also provide additional benefits to our employees, such as subsidized accommodation and meals for our workers at the production facilities, and accident and medical insurance.

Social Welfare

In accordance with the relevant PRC national labor and social welfare laws and regulations, we are required to pay, in respect of each of our employees including migrant workers (農民工), who are hired on a temporary basis, a monthly social insurance premium covering job-related injury insurance, pension insurance, medical insurance, unemployment insurance and birth insurance separately at the rates of 1%, 11%, 8%, 2% and 0.7% of wages, respectively, and housing provident fund. Our employees are required to contribute to pension insurance, medical insurance and unemployment insurance and housing provident fund while our migrant workers are required to contribute to pension insurance, medical insurance and housing provident fund.

Job-related Injury Insurance

With regards to job-related injury insurance, we have provided such insurance to all our workers including migrant workers in compliance with both national and local laws and regulations. We provide job-related injury insurance in accordance with the City of Guangzhou's Notice on the Expansion of the Scope of Job-related Injury Insurance Participants and Operational Guidelines for Migrant Workers to Participate on a Priority Basis in Job-related Injury Insurance (《關於廣州市工傷保險擴面和農民工先行參加工傷保險若干操作問題的通知》(穗勞社函[2006]1000號)) promulgated by the Guangzhou Labor and Social Security Bureau (廣州市勞動和社會保障局) on November 14, 2006, the Regulations for the Job-related Injury Insurance (《工傷保險條例》) promulgated by the State Council (國務院) on April 27, 2003 and the Opinions from the State Council on the Migrant Workers' Issue (《國務院關於解決農民工問題的若干意見》) promulgated on January 31, 2006.

Other Social Welfare Insurance

In accordance with local practice, we provide pension insurance, medical insurance, unemployment insurance and birth insurance (the "Other Social Welfare Insurance") to our employees who are permanent urban residents, not migrant workers. Existing PRC national laws and regulations require contributions for all employees including migrant workers and we have not fully complied with requirements with respect to Other Social Welfare Insurance in accordance with the Provisional Rules on Social Welfare Collection and Contribution (《社會保險徵繳暫行條例》) and the Interim Rules on Birth Insurance for Employees of an Enterprise (《企業職工生育保險試行辦法》). Currently, we are not required under any existing local practice in Guangzhou to make contributions in respect of the Other Social Welfare Insurance for our migrant workers. We have not provided Other Social Welfare Insurance to migrant workers in accordance with the national requirements as the high turnover rate of migrant workers employed by us compounded by their mobility generally makes it unduly burdensome and practically

difficult to establish a system which would enable us to track their movement, as is necessary to fully comply. Migrant workers traditionally and by nature move between towns, cities and even provinces, at times over short periods, in search of employment. The migrant workers employed by us generally leave within nine months. For pension insurance and medical insurance, the national rules and regulations require migrant workers to make co-contributions. The practical difficulty of administering such for migrant workers is further exacerbated by their reluctance to make these necessary co-contributions and any attempts by the Company to enforce co-contributions would decrease these workers' take-home pay and increase their turnover rate. Furthermore, the relevant bureau will not accept unilateral contributions from the Company. However, if in the future, we are required by the Guangzhou Labor and Social Security Bureau (廣州勞動和社會保障局) or the Panyu Labor and Social Security Bureau (番禺勞動和社會保障局), the Guangzhou Social Security Fund Management Center (廣州社會保險基金管理中心) or the Panyu Social Security Fund Management Center (番禺社會保險基金管理中心) to comply with national requirements and make contributions, we will comply accordingly. Failure to do so and to provide reparations for delinquent payments as required within a stipulated time may result in the imposition of a daily fine of 0.2% for all delinquent payments. Our management may also be fined RMB1,000 to RMB10,000 for failure to make the required contributions. To date, no demand has been made on us for any delinquent payments and no such fines have been imposed on us for employees, including migrant workers, in accordance with national laws.

Housing Provident Fund

With regards to the housing provident fund, we have not contributed to it for all employees including migrant workers, a practice which is not in compliance with national laws and regulations which may subject us to a maximum penalty of RMB50,000. According to the Regulations for the Housing Provident Fund Contributions (《住房公積金管理條例》), employers are required to pay, in respect of each employee, a monthly housing provident fund contribution of not less than 5% of the employee's average salary of the previous year. Prior to February 1, 2007, there were no local practice guidelines applicable to foreign investment enterprises on contributions to the housing provident fund. According to the Administrative Provisions on the Further Strengthening of the Housing Provident Fund Management (《關於進一步加強住房公積金管理的若干規定》) (the "Provisions") promulgated by the Guangzhou Housing Provident Fund Administration Commission (廣州市住房公積金管理委員會) on February 1, 2007, we are required to register within 60 days from the promulgation of the Provisions and pay the housing provident fund within six months from the date of promulgation of the Provisions. We completed the relevant registration with the Panyu Housing Provident Fund Administration Center (番禺住房公積金管理中心) on April 2, 2007 and will make contributions within the stipulated deadline in accordance with the Provisions and national requirements.

Ongoing Compliance

We have made provisions in the sum of HK\$45 million as at November 30, 2006 in our accounts for non-compliance with PRC national labor laws and regulations with respect to the Other Social Welfare Insurance and the housing provident fund for the difference between the amounts we have paid and what we may be required to pay if national requirements are enforced. As disclosed above, in certain circumstances, additional penalties may be assessed on us and these amounts cannot be ascertained at this time. We believe the foregoing provisions are sufficient to cover any potential claims arising from the non-compliance with the Other Social Welfare Insurance and housing provident fund laws and regulations. We have the financial strength to support any additional penalties and will continue to monitor the adequacy of our provisions. We will make additional provisions as necessary.

The Company will make the required contributions to the Other Social Welfare Insurances if it is ordered to do so within the relevant deadlines. Moreover, pursuant to the Deed of Indemnity, the Indemnifiers have agreed to indemnify the Group for any losses, liabilities or damages suffered in connection with, amongst others, any violation or non-compliance by any member of the Group with any applicable national and local labor laws, regulations or rules in the PRC occurring on or before the Listing Date. For further details in this respect, please see "Appendix VI — Other Information — 1. Deed of Indemnity".

BUSINESS

Our PRC legal advisors have advised that according to the labor laws and regulations, when labor disputes on the social security and housing provident contributions between the employees and the Group arise, the employees have the right to file an application directly with the Labor Disputes Arbitration Committee of Panyu District, Guangzhou (廣州市番禺區勞動爭議仲裁委員會) for arbitration. If the arbitration result is not accepted, the case may be brought before the People's Court for trial. The court judgments may require us to fulfill our obligations in accordance with the national laws and regulations.

Save for the aforementioned and as disclosed in "Risk Factors — Non-compliance with PRC employee social welfare contribution regulations could lead to the imposition of fines or penalties" in this prospectus, to the best of our knowledge, we have complied with the applicable employment laws and regulations in the PRC, Sri Lanka and Hong Kong in all material respects and were not in breach of such laws and regulations during the Track Record Period.

Labor

According to the Labor Law of the PRC, employers are required to establish and improve their rules according to national and local laws and regulations. A labor contract should be entered into by and between workers and employers in order to confirm their labor relations. Labor contracts should observe the principles of equality, voluntariness and unanimity and shall not violate the provisions of the laws or administrative decrees.

An employer must independently determine its distribution of wages and wage scale according to its production, operation and profitability.

When a labor dispute arises, the parties concerned may apply with the labor dispute mediation committee of their own unit for mediation. Should the mediation fail and one of the parties concerned demand arbitration, it may apply to the labor disputes arbitration committee for arbitration. Parties may also file an application directly with the labor disputes arbitration committee for arbitration. If the arbitration ruling is not accepted, the case may be brought before the People's Court. As of the Latest Practicable Date, there have been no labor disputes submitted to the Labor Disputes Arbitration Committee of Panyu District, Guangzhou (廣州市番禺區勞動爭議仲裁委員會).

Workers' Health

According to the Labor Law of the PRC, employers are required to establish and improve their labor safety and health care system, strictly implement the labor safety and health care regulations and standards of the State, carry out labor safety and health care education among their workers, prevent accidents during work and reduce occupational hazards.

OCCUPATIONAL SAFETY

We have implemented measures at our production facilities to promote occupational safety and to ensure compliance with applicable laws and regulations. We confirm that our operations were in compliance with the applicable safety regulations in all material respects during the Track Record Period.

At our Panyu facility, we have a designated occupational safety team with five personnel responsible for the administration and promotion of occupational safety. At our Sri Lanka facility, we have two personnel handling these duties. In addition, over 120 of our employees at our Panyu facility have completed safety officer training organized by the Production Safety Supervision and Administration Committee of Guangzhou City (廣州市安全生產監督管理委員會). Our occupational safety team is headed by Mr. Pang Ping Hung, a general manager with over 30 years of experience in the textile industry. We publish bulletins with occupational safety discussions to promote the importance of and to raise the awareness of occupational safety among our employees. We have established a series of safety guidelines, rules and procedures for different aspects of our production activities, including fire safety, warehouse safety, electricity safety, work-related injuries and emergency and evacuation procedures.

During the Track Record Period, we did not experience any accidents that, individually or in the aggregate, have had a material effect on the Group's financial condition and results of operations. However, we did experience one fatality of an employee working at our captive cogeneration power facility in Panyu in February 2005. The deceased employee failed to comply with our safety procedures, including not wearing a safety belt and working without a co-worker nearby. Following the incident, in addition to receiving compensation from the social security bureau pursuant to applicable laws and regulations, we have further compensated this employee's family in the amount of RMB123,000. We also provided further safety training to the employees working at our captive cogeneration power facility following the incident and implemented other measures including more stringent safety procedures and establishment of an occupational safety team responsible for the administration and promotion of occupational safety. At our Sri Lanka facility, we maintain a general register with the records of accidents and dangerous occurrences. During the Track Record Period, four minor fires broke out in our Sri Lanka facility. The impact of the fires was negligible and did not result in any injury or damage to property or premises. There were no claims filed in relation to these incidents. We have responded by seeking expert advice with whose help we adopted measures to mitigate the risk of fire, such as investing in appropriate preventative equipment, organizing fire drills and providing fire prevention training.

Production Safety

Applicable laws and regulations with which we comply include the Production Safety Law of the PRC and the Regulations of Production Safety of Guangdong Province, concerning issues such as production safety, including adequate administration of, and responsibility for, production safety.

According to the PRC Production Safety Law (《中華人民共和國安全生產法》) and the Regulations on the Production Safety of Guangdong Province (《廣東省安全生產條例》), enterprises are required to observe laws and regulations concerning production safety, strengthen their administration of, establish and improve a system of responsibility for, and improve facility conditions to ensure, production safety. An entity with more than 300 employees is required to establish an administrative department for production safety or have full-time personnel for the administration of production safety.

The safety facilities for newly built or rebuilt or expanded engineering projects are required to be designed, built and put into production and use at the same time as the principal part of the projects. The investment in safety facilities is required to be incorporated into the budgetary estimates of the construction projects concerned.

When an accident occurs, the entity must take effective measures immediately, organize rescues, and prevent the accident from deteriorating so as to minimize personnel injuries and property losses. The entity shall report truthfully to the local departments responsible for the supervision and administration of production safety, and may not conceal anything, make false reports, delay reports, tamper with the accident area deliberately or destroy relevant evidence.

As required, our safety facilities for our expansion and construction projects are constructed and used concurrently with the principal parts of our projects. We incorporate capital investment in safety facilities in our budget estimates for expansion and construction projects.

BUSINESS

PROPERTIES

Land

We currently own land in the PRC with a total area of approximately 334,400 square meters. We use this land principally for our current operations and our planned future expansion.

We also lease two parcels of land in Sri Lanka with a total area of approximately 73,500 square meters which are used for current operations and future planned expansion. In addition, we received approval on March 16, 2007 from the BOI for the lease of two additional parcels of land with a total area of approximately 49,100 square meters to be used for future expansion of our operations. Our Sri Lanka counsel confirmed that there is no encumbrance on the leasehold title of these parcels of land.

See “Appendix IV — Property Valuation” for further details regarding the land we occupy and the terms of the leases.

Buildings

We currently own 24 buildings or units in the PRC, with a total gross floor space of approximately 273,300 square meters. Approximately 84.4% of these buildings or units are used as our primary business premises, including as manufacturing facilities, offices, water treatment facilities and electricity generating facilities (the “Business Premises”), while the remaining 15.6% are used mainly for staff quarters. Of the buildings we own in our Panyu facility, we do not yet have the building ownership certificate for one building with a floor area of approximately 6,294 square meters.

PPTL is currently applying for the Memorandum Note for the remaining building (“Dormitory No. 13”). Since we have not applied for the Memorandum Note for Dormitory No. 13 within 15 business days after the receipt of the formal completion handover procedure, the authorities may impose on us fines ranging from RMB200,000 to RMB300,000. We expect that PPTL will obtain the Memorandum Note for Dormitory No. 13 on or about July 2007. According to our PRC counsel, all of the relevant permits have been obtained for the construction of Dormitory No. 13, and there will be no significant legal impediment to the application for the building ownership certificate for this building after obtaining the Memorandum Notes. In any event, we are of the view that Dormitory No. 13 is not crucial to our operations since it is not used for operation purposes and it does not significantly impact PPTL’s business operations.

In light of the above, the Directors are of the view that absence of the building ownership certificate for the one property will not have any material adverse effect on the Group’s business.

We also lease six properties with a total gross floor space of approximately 29,400 square meters for which we have not received title certificates from the lessors. Our PRC counsel has advised that, according to the relevant laws and regulations, if the lessors do not possess the title to these properties or obtain the owners’ authorization to lease these properties, the validity of the leases may be subject to disputes raised by third parties. Additionally, these lease agreements have not been registered with the relevant authorities. According to the relevant regulations, the effectiveness of a lease agreement will not be affected due to the failure to register the agreement. However, the parties to the agreement may be subject to disputes raised by third parties who have properly registered their agreements on the same property.

One property currently used as a boundary strip for fencing purposes may violate the agreed use of the land. We have obtained a verbal approval from the lessor on the current use of the land but the timing for the receipt of a written confirmation is uncertain. We may be subject to the risk of violating the lease agreement for as long as a written confirmation on the use is not granted from the lessor and may be ordered to use this leased land as agreed for planting trees and greening. If the lessor suffers any losses, we would have to compensate for the losses caused by our violation. The damages we may pay relate to

BUSINESS

altering the land to comply with the agreed use under our contract. The maximum amount we estimate we will be subject to is RMB50,000. However, we consider these leased properties, comprising a fencing wall, warehouses and a boundary strip, not material to our operations as they are not used for operation purposes and do not significantly impact our business operation.

At our Panyu facility, we are in the process of constructing and are in the completion handover process for a central warehouse, a workshop, a canteen/office building, Phase III of our water treatment plant and Phase IV of our power plant. The formal completion handover procedures for the workshop A5, the canteen/office building, Phase III of the water treatment plant and Phase IV of the power plant commenced between October 2006 and March 2007 and are expected to be completed between July 2007 and November 2007. We have obtained the relevant permits for these construction projects, but the Construction Works Commencement Permit for the central warehouse has expired and we are in the process of applying for an extension. In the event our application is denied, we may be subject to penalties imposed by the relevant authorities in the PRC. Moreover, although the relevant laws and regulations do not set out specific penalties for continuing construction without a valid permit or the maximum amount of the fine, the local Panyu Construction Bureau holds the opinion that it has the power to impose a fine. The formal completion handover procedure for the central warehouse is expected to commence in May 2007 and be completed in September 2007.

We are using a portion of the workshop and canteen/office building without a formal completion handover process for which we may be subject to penalties. According to the Administrative Ordinance on the Construction Quality (《建設工程質量管理條例》), we may be required to stop using the buildings until the formal completion handover procedure is completed, and/or pay a fine to the relevant authorities of up to RMB2.6 million, and persons held liable for such violation may be required to pay a fine to the relevant authorities ranging from 5% to 10% of the fine imposed on us. Under the PRC laws and regulations, the person liable for the violation is the legal representative of the company. Because this occurred during the performance of the legal representative's duties, we will pay the fine on behalf of the legal representative. Since we are only using a small portion of the workshop and the canteen/office building for a temporary purpose, and the formal completion handover procedures for the two buildings have commenced and are expected to be completed separately by July 2007 and November 2007, we are of the view that the possible legal consequences will not have a material impact on our operations.

Pursuant to the Deed of Indemnity, the Indemnifiers have agreed to indemnify the Group for any losses, liabilities or damages suffered in connection with, amongst others, prohibition from using or eviction from Dormitory No. 13, central warehouse, workshop and canteen/office building and various properties leased and occupied by the Group. For further details in this respect, please see "Other Information — 1. Deed of Indemnity" in Appendix VI to this prospectus.

We will not use Phase III of the water treatment plant for production until all the relevant approval certificates and permits required by the PRC law have been obtained. We will not use Phase IV of the power plant until the relevant formal completion handover process is completed.

We also own four units with a total gross floor space of approximately 39,800 square feet in Hong Kong. We occupy these units as offices and storage.

We currently have thirteen buildings in our Sri Lanka facility with a total gross floor space of approximately 346,700 square feet.

We lease two properties in Macau with a total floor space of approximately 266 square meters for use as office space and staff quarters.

We also lease a property in the UK with a total floor of approximately 667 square feet for use as office space.

BUSINESS

See “Appendix IV — Property Valuation” for further details regarding the buildings or units that we occupy and the terms of the leases.

INTELLECTUAL PROPERTY RIGHTS

We own the rights to two registered trademarks. See “Appendix VI — Statutory and General Information” for further details.

REGULATIONS

We are subject to national and local laws and regulations governing manufacturing entities and are committed to conducting our operations in a manner that complies with applicable laws and regulations.

With respect to the requirements of the Notice on Issues Relating to Foreign Exchange Controls on Fundraising by Domestic Residents through Offshore Special Purpose Vehicles and Round-trip Investments (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) issued by the PRC State Administration of Foreign Exchange (國家外匯管理局) on October 21, 2005 (the “SPV Notice”) and the Provisions in Relation to Mergers and Acquisitions of PRC Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) issued by the relevant PRC authorities on August 8, 2006 (the “Foreign Acquisitions Provisions”), our PRC legal advisor has advised that: (a) the SPV Notice is not applicable to Mr. Ip Ping Im, the beneficial owner of the single largest shareholder of the Company, Far East Asia Limited, who is a permanent resident of Hong Kong and resides ordinarily in Hong Kong; (b) the Company is not an offshore special purpose vehicle as defined in the SPV Notice and the Foreign Acquisitions Provisions; and (c) as the PRC company was a foreign-invested enterprise established in 1997 by Pacific Textiles Limited, a purely foreign company incorporated in Hong Kong, the Foreign Acquisitions Provisions, which regulate PRC domestic enterprises from being changed to foreign-invested enterprises or operated as foreign-invested enterprises since September 8, 2006, are not applicable to the Reorganization and the Listing, both of which are not subject to the approval of the China Securities Regulatory Commission (中國證券監督管理委員會) or other PRC government authorities.

Industry Rules and Regulations

The Directors confirm we have complied with the applicable rules and regulations of the textile and garment industry during the Track Record Period. For the import and export of fabrics by our Panyu operation, we have obtained the China Customs Shipper Registration Certificate for Import and Export Cargo (《中華人民共和國海關進出口貨物發貨人報關註冊登記證書》) valid until July 23, 2008, and the Registration Certificate for Direct Inspection and Quarantine (《自理報檢單位備案登記證明書》) valid until January 11, 2011. The fabrics produced by the Group fall within the Provisional Administration of Textiles and Apparel Exports to the United States but not the Provisional Administration of Textiles and Apparel Exports to the European Union.

CONNECTED TRANSACTIONS

Immediately after Listing, a number of existing transactions of the Group will be regarded as connected transactions under the Listing Rules. Such transactions are set out below.

CONNECTED PERSONS

According to the Listing Rules, upon Listing, Linea Clothing (Private) Limited (“Linea”), by virtue of its 48% shareholding in PT Sri Lanka, a subsidiary of the Company, will be regarded as a connected person of the Company. Linea’s associates will be regarded as connected persons of the Company as well. Such associates include, among others, MAS Capital (Private) Limited (“MAS”), a company incorporated in Sri Lanka, which holds 66.7% interest in Linea and its subsidiaries (“MAS Group”). MAS Group is one of the largest suppliers of intimate apparel in Sri Lanka and is one of the top five customers of the Group.

Since Linea is a connected person of the Group under Listing Rule 14A.11(1) by virtue of its 48% shareholding in PT Sri Lanka and PT Sri Lanka is an associate of Linea according to the definition of “associate” under Listing Rule 1.01, PT Sri Lanka would be regarded as a connected person of the Company under the Listing Rules.

Mr. Henry Choi, who is the son of Mr. Choi Kin Chung (a Director), is regarded as a connected person of the Company by virtue of Listing Rule 14A.11(4)(b). Mr. Henry Choi has substantial shareholding interests in three companies, namely, Vivace Apparel, Inc., a company incorporated in the State of California, U.S.A. (in which he has 100% interest), Pacific Design Apparel, a company incorporated in the State of California, U.S.A. (in which he has 50% interest) and Source Smart Asia Limited, a company incorporated in Hong Kong (in which he has 50% interest) (the “HC Companies”), which are deemed to be connected persons of the Company. The HC Companies are engaged in the apparel business. The HC Companies are operationally and financially independent of the Group. None of the Directors are the directors of the HC Companies. No financial assistance has been provided by the Group to the HC Companies and the Group’s sales to the HC Companies are on normal commercial terms.

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Provision of administration services

Members of MAS Group currently provide, and will continue to provide after Listing has been attained, administration services to PT Sri Lanka. The provision of these services pre-dates the acquisition by the Company of the 52% majority shareholding in PT Sri Lanka in 2004. Such administration services include, without limitation, quarterly financial reviews and budgetary planning, human resources management and development, liaising with banks and local, regulatory and statutory authorities and other related administrative advice. The fees related to provision of such services are charged on a monthly basis and are subject to annual review and determined by reference to the costs incurred in providing such services and the rate of inflation in Sri Lanka.

For each of the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2005 and 2006, the aggregate fee paid by PT Sri Lanka for such administration services amounted to US\$51,902 (approximately HK\$404,836), US\$54,741 (approximately HK\$426,980), US\$56,646 (approximately HK\$441,839), US\$32,976 (approximately HK\$257,213) and US\$36,894 (approximately HK\$287,773) respectively.

The Directors (including the INEDs) are of the view that such services are being provided to PT Sri Lanka in the ordinary and usual course of PT Sri Lanka’s business and on normal commercial terms, and the terms of such transactions are fair and reasonable and in the interest of the shareholders of the Company as a whole.

CONNECTED TRANSACTIONS

Provision of procurement services

The Group (other than PT Sri Lanka) currently procures, and will continue to procure, raw materials and machinery spare parts on behalf of PT Sri Lanka. Such raw materials include dye and chemicals. The cost of the procured raw materials and machinery spare parts is reimbursed by PT Sri Lanka and a fee of 3% of such cost is charged by the Group (other than PT Sri Lanka) to PT Sri Lanka as handling fee.

For each of the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2005 and 2006, the aggregate handling fees paid by PT Sri Lanka amounted to nil, HK\$41,299, HK\$309,684, HK\$142,272 and HK\$312,782 respectively. The Group (other than PT Sri Lanka) has provided the procurement services to PT Sri Lanka following the Company acquiring its interest in PT Sri Lanka.

The Directors (including the INEDs) are of the view that such transactions are in the ordinary and usual course of the Group's business and on normal commercial terms, and the terms of such transactions are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Exemption under Listing Rule 14A.33(3)

The transactions described in the paragraphs headed "Provision of administrative services" and "Provision of procurement services" above are of a continuing and recurring nature. The applicable percentage ratios under the Listing Rules on an annual basis have been and are expected by the Company to continue to be less than 0.1%. Therefore, the provision of administration services and the provision of procurement services as described in the above paragraphs will fall within the 0.1% *de minimis* threshold set out in Rule 14A.33(3)(a) of the Listing Rules and such transactions are therefore exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

EXEMPTED FINANCIAL ASSISTANCE TO PT SRI LANKA BY A CONNECTED PERSON

PT Sri Lanka, a subsidiary of the Company, is the beneficiary of financial assistance provided by Linea. Details of the financial assistance are set out below.

Existing shareholder's loan to PT Sri Lanka

Linea has extended to PT Sri Lanka a loan of US\$1,473,812 (approximately HK\$11,495,734) which is recorded by PT Sri Lanka as a shareholder's loan (the "Existing JV Shareholder Loan"). The debt was incurred by PT Sri Lanka prior to the acquisition of interest in PT Sri Lanka by the Company in 2004. The proceeds of the Existing JV Shareholder Loan have been and will be used for PT Sri Lanka's working capital purposes. The Existing JV Shareholder Loan is repayable when determined by PT Sri Lanka and carries no interest. No security over the assets of the Group has been granted in respect of such financial assistance.

Proposed shareholders' loan to PT Sri Lanka

A new shareholders' loan of US\$14,886,338 (approximately HK\$116,113,436) is proposed to be provided to PT Sri Lanka by Linea (as to US\$7,145,442, approximately HK\$55,734,448) and Pacific Textured Jersey Holdings Limited (as to US\$7,740,896, approximately HK\$60,378,989), which directly holds the 52% interest in PT Sri Lanka and is a wholly-owned subsidiary of the Company, in proportion to their respective equity interest in PT Sri Lanka. It is further proposed that the loan will rank prior to the Existing JV Shareholder Loan. Like the Existing JV Shareholder Loan, the proposed shareholders' loan is to be repayable when determined by PT Sri Lanka and will carry no interest. The loan is intended to be used to increase the manufacturing capacity of PT Sri Lanka. No security over the assets of the Group has been granted in respect of such financial assistance.

CONNECTED TRANSACTIONS

Financial assistance exemption under Listing Rule 14A.65(4)

The loans to PT Sri Lanka described in the paragraphs headed “Existing shareholder’s loan to PT Sri Lanka” and “Proposed shareholders’ loan to PT Sri Lanka” above constitute financial assistance provided by a connected person of the Company for the benefit of the Group and fall or will fall within the exemption under Listing Rule 14A.65(4) for the following reasons:

- (i) the financial assistance is or is proposed to be on normal commercial terms (or better to the Group); and
- (ii) no security over the assets of the Group is or proposed to be granted in respect of such financial assistance.

Therefore, the financial assistance described in paragraphs “Existing shareholder’s loan to PT Sri Lanka” and “Proposed shareholders’ loan to PT Sri Lanka” above is or will be exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS AND WAIVER APPLICATION

Sale of products to MAS Group and its associates

The Group currently sells, and will continue to sell, knitted fabrics to MAS Group and its associates. The Directors (including the INEDs) have confirmed that prices of the knitted fabrics sold to MAS Group and its associates have been and will be determined on an arm’s length basis by reference to the prevailing market rates or at rates similar to those charged or to be charged to the Group’s other, independent third party customers. Pursuant to a sale of products master agreement (the “MAS Sale of Products Master Agreement”) dated April 30, 2007 between the Company and MAS, the parties would enter into, and procure their respective subsidiaries and associates to enter into, such transactions at prices determined on an arm’s length basis and comparable to the prevailing market rates or at rates similar to those offered by the Group to independent third-parties and subject to other terms and conditions set out therein. The MAS Sale of Products Master Agreement has an initial term from April 1, 2007 to March 31, 2010 and shall, subject to compliance of the relevant requirements applicable to connected transactions under the Listing Rules by the Group, automatically renew for a term of three years (or such other period permitted under the Listing Rules) after expiry of the initial term. The Company will comply with the then applicable Listing Rules when the initial term of the MAS Sale of Products Master Agreement expires on March 31, 2010.

As mentioned in the section headed “Connected Persons” above, MAS Group is a connected person of the Company at the level of the Company’s subsidiary only. The Group has sold knitted fabrics to MAS Group and its associates since 1997 which is prior to the Company acquiring its interest in PT Sri Lanka.

For each of the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2005 and 2006, the aggregate sales from the Group to MAS Group and its associates amounted to HK\$139,769,585, HK\$222,734,391, HK\$324,346,246, HK\$215,802,026 and HK\$218,788,090 respectively and accounted for approximately 6.17%, 7.62%, 9.64%, 9.87% and 7.58% of the Group’s revenue for the respective period. It is estimated that the aggregate sales from the Group to MAS Group and its associates for the year ended March 31, 2007 will be approximately HK\$367,000,000. The increase in the Group’s sales to MAS Group and its associates during the Track Record Period was due to the expansion of MAS Group during the same period.

CONNECTED TRANSACTIONS

It is proposed that annual caps for the MAS Sale of Products Master Agreement shall be HK\$459 million, HK\$574 million and HK\$717 million for each of the three years ending March 31, 2010 respectively. Such annual caps have been determined by the Company based on the historical amounts of sales of knitted fabrics to MAS Group and its associates and the estimated volume of sales in each of the relevant years. During the four financial years ended March 31, 2007, the Group's sales to MAS Group and its associates increased from HK\$139,769,585 to approximately HK\$367,000,000 (estimated amount), representing a compound annual growth rate of approximately 38%. The increase in the annual cap for the year ending March 31, 2008 as compared to the historical amounts and the increasing trend of the annual caps over the three years to March 31, 2010 take into account (i) the foregoing historical compound annual growth rate of the Group's sales to MAS Group and its associates; and (ii) the Group's average growth in sales of approximately 22% for the year ended March 31, 2006 and the eight months ended November 30, 2006 when compared with the same periods in 2005.

The applicable percentage ratios under the Listing Rules, on an annual basis, in respect of transactions contemplated under the MAS Sale of Products Master Agreement, are expected to be not less than 2.5%. Accordingly, transactions contemplated under the MAS Sale of Products Master Agreement will be subject to the independent shareholders' approval, reporting and announcement requirements under Chapter 14A of the Listing Rules.

The Directors (including the INEDs) are of the opinion that the proposed annual caps are fair and reasonable and that the transactions contemplated under the MAS Sale of Products Master Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the MAS Sale of Products Master Agreement are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Sale of Products to PT Sri Lanka

The Group (other than PT Sri Lanka) currently sells, and will continue to sell, knitted fabrics and greige fabrics to PT Sri Lanka. The Directors (including the INEDs) have confirmed that prices of the knitted fabrics and greige fabrics sold to PT Sri Lanka have been and will be determined on an arm's length basis by reference to the prevailing market rates and the cost for processing greige fabrics. Pursuant to a master agreement (the "PT Sri Lanka Sale of Products Master Agreement") dated April 30, 2007 between the Company and PT Sri Lanka, the parties would enter into, and the Company would procure its subsidiaries (other than PT Sri Lanka) to enter into, such transactions at prices determined at arm's length and comparable to the prevailing market rates or to the cost for processing greige fabrics and subject to other terms and conditions set out therein. The PT Sri Lanka Sale of Products Master Agreement has an initial term from April 1, 2007 to March 31, 2010 and shall, subject to compliance with the relevant requirements applicable to connected transactions under the Listing Rules by the Group, automatically renew for a term of three years (or such other period permitted under the Listing Rules) after expiry of the initial term. The Company will comply with the then applicable Listing Rules when the initial term of the PT Sri Lanka Sale of Products Master Agreement expires on March 31, 2010.

The Group (other than PT Sri Lanka) has sold knitted fabrics and greige fabrics to PT Sri Lanka following the Company acquiring its interest in PT Sri Lanka. Such sales are for the purpose of easing PT Sri Lanka's production capacity constraint and to meet peaks in customer orders from time to time.

For each of the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2005 and 2006, the aggregate sales from the Group (other than PT Sri Lanka) to PT Sri Lanka amounted to nil, HK\$4,018,344, HK\$5,107,388, HK\$3,079,272 and HK\$20,678,005 respectively and accounted for approximately nil, 0.14%, 0.15%, 0.14% and 0.72% of the Group's revenue for the respective period. It is estimated that the Group's (other than PT Sri Lanka) sales to PT Sri Lanka for the year ended March 31, 2007 will be approximately HK\$32,000,000. During the financial year ended March 31, 2007, PT Sri Lanka experienced strong growth in sales. Owing to its limited capacity, PT Sri Lanka satisfied

CONNECTED TRANSACTIONS

the growth in sales through increased purchases from the Group. As a result, the Group's estimated sales to PT Sri Lanka for the year ended March 31, 2007 increased more than fivefold when compared with 2006.

It is proposed that annual caps for the PT Sri Lanka Sale of Products Master Agreement shall be HK\$43 million, HK\$58 million and HK\$79 million for each of the three years ending March 31, 2010 respectively. Such annual caps have been determined by the Company based on the historical amounts of sales of knitted fabrics and greige fabrics to PT Sri Lanka and the estimated volume of sales in each of the relevant years. Despite the planned 50% increase in PT Sri Lanka's production capacity by the end of 2008, it is expected that PT Sri Lanka will continue to make purchases from the Group to meet growing sales and peaks in customer orders from time to time. The increase in the annual cap for the year ending March 31, 2008 as compared to the historical amounts and the increasing trend of the annual caps over the three years to March 31, 2010 also take into account the growth in sales of the Group of approximately 32% for the eight months ended November 30, 2006 as compared to the same period in 2005.

The applicable percentage ratios under the Listing Rules, on an annual basis, in respect of transactions contemplated under the PT Sri Lanka Sale of Products Master Agreement, is expected to be not less than 0.1% but less than 2.5%. Accordingly, transactions contemplated under the PT Sri Lanka Sale of Products Master Agreement will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

The Directors (including the INEDs) are of the opinion that the proposed annual caps are fair and reasonable and that the transactions contemplated under the PT Sri Lanka Sale of Products Master Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the PT Sri Lanka Sale of Products Master Agreement are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Sale of products to the HC Companies

The Group currently sells, and will continue to sell, knitted fabrics to the HC Companies. The Directors (including the INEDs) have confirmed that prices of the knitted fabrics sold to HC Companies have been and will be determined on an arm's length basis by reference to the prevailing market rates or at rates similar to those charged or to be charged to the Group's other, independent third party customers. Pursuant to a master agreement (the "HC Companies Sale of Products Master Agreement") dated April 30, 2007 between the Company and the HC Companies, the parties would enter into, and the Company would procure its subsidiaries to enter into, such transactions at prices determined on an arm's length basis and comparable to the prevailing market rates or at rates similar to those offered by the Group to independent third-parties and subject to other terms and conditions set out therein. The HC Companies Sale of Products Master Agreement has an initial term from April 1, 2007 to March 31, 2010 and shall, subject to compliance with relevant requirements applicable to connected transactions under the Listing Rules by the Group, automatically renew for a term of three years (or such other period permitted under the Listing Rules) after expiry of the initial term. The Company will comply with the then applicable Listing Rules when the initial term of the HC Companies Sale of Products Master Agreement expires on March 31, 2010.

For each of the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2005 and 2006, the aggregate sales from the Group to the HC Companies amounted to HK\$10,449,792, HK\$29,678,737, HK\$15,334,570, HK\$9,829,979 and HK\$11,158,483 respectively and accounted for approximately 0.46%, 1.02%, 0.46%, 0.45% and 0.39% of the Group's revenue for the respective period. It is estimated that the Group's sales to the HC Companies for the year ended March 31, 2007 will be approximately HK\$17,000,000. Sales to the HC Companies decreased substantially from HK\$29,678,737 for the year ended March 31, 2005 to HK\$15,334,570 for the year ended March 31, 2006. The Group has been advised that this decrease was primarily the result of a reduction in the related business of the HC Companies during the period.

CONNECTED TRANSACTIONS

It is proposed that annual caps for the HC Companies Sale of Products Master Agreement shall be HK\$19.6 million, HK\$22.5 million and HK\$25.9 million for each of the three years ending March 31, 2010 respectively. Such annual caps have been determined by the Company based on the historical amounts of sales of knitted fabrics to the HC Companies and the estimated volume of sales in each of the relevant years. The increase in the annual cap for the year ending March 31, 2008 and the increasing trend of the annual caps over the three years to March 31, 2010 take into account the expected growth of the Group's production capacity and the approximately 11% increase in the Group's sales to the HC Companies for the year ended March 31, 2007 when compared with 2006.

The applicable percentage ratios under the Listing Rules, on an annual basis, in respect of transactions contemplated under the HC Companies Sale of Products Master Agreement, are expected to be not less than 0.1% but less than 2.5%. Accordingly, transactions contemplated under the HC Companies Sale of Products Master Agreement will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

The Directors (including the INEDs) are of the opinion that the proposed annual caps are fair and reasonable and that the transactions contemplated under the HC Companies Sale of Products Master Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the HC Companies Sale of Products Master Agreement are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Waivers under Listing Rule 14A.42(3)

Pursuant to Rule 14A.42(3) of the Listing Rules, the Company has applied to the Stock Exchange for a waiver from strict compliance with the independent shareholders' approval and announcement requirements in respect of the MAS Sale of Products Master Agreement and a waiver from strict compliance with the announcement requirement in respect of the PT Sri Lanka Sale of Products Master Agreement and the HC Companies Sale of Products Master Agreement. Such waivers will expire on March 31, 2010. Apart from the announcement and/or independent shareholders' approval requirements in respect of which a waiver has been sought, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules including the proposed annual caps.

In the event that the aggregate annual amount receivable by the Group under the MAS Sale of Products Master Agreement, the PT Sri Lanka Sale of Product Master Agreement or the HC Companies Sale of Products Master Agreement exceeds the relevant maximum caps in the relevant year set out above, such cap would be subject to review and the Company shall comply with the then relevant provisions of the Listing Rules where applicable.

CONFIRMATION FROM THE SPONSORS

The Joint Sponsors are of the view that (1) the continuing connected transactions described in paragraphs headed "Exempted continuing connected transactions" and "Non-exempted continuing connected transactions and waiver application" above are entered into in the ordinary and usual course of business of the Company and on normal commercial terms, and the terms of the relevant transactions are fair and reasonable and in the interest of shareholders of the Company as a whole, and (2) the proposed annual caps for the continuing connected transactions described in the paragraph headed "Non-exempted continuing connected transactions and waiver application" are fair and reasonable as far as the shareholders of the Company as a whole are concerned.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our board of Directors consists of eleven Directors, of whom four are executive Directors, four are non-executive Directors and three are INEDs. The functions and duties conferred on the Board include: convening shareholders' meetings and reporting their work to the shareholders' meetings, implementing the resolutions of the shareholders' meetings, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating the Company's proposals for dividend and bonus distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by the Articles of Association.

The following table sets out certain information concerning the Directors. There is no family relationship between any of the Directors or members of senior management of the Company.

Name	Age	Position
Mr. WAN Wai Loi	57	executive Director (Chairman of the Board)
Mr. TSANG Kang Po	56	executive Director (Vice Chairman of the Board)
Mr. LAM Wing Tak	56	executive Director (Chief Executive Officer)
Dr. LAM King Man	51	executive Director
Mr. CHOI Kin Chung	71	non-executive Director (Emeritus Chairman)
Mr. IP Ping Im	70	non-executive Director
Mr. HO Hsiang Ming, James	47	non-executive Director
Mr. LAU Yiu Tong	59	non-executive Director
Mr. CHAN Yue Kwong, Michael	55	INED
Mr. NG Ching Wah	58	INED
Mr. SZE Kwok Wing, Nigel	49	INED

Executive Directors

Mr. WAN Wai Loi, aged 57, is an executive Director and Chairman and a founder of our Group. Mr. Wan is responsible for production of our products and the formulation of the overall corporate direction and business strategies of the Group. Mr. Wan has over 34 years of experience in the textile industry. He was a executive director of Fountain Set (Holdings) Limited, which is listed on the Main Board of the Stock Exchange, from 1993 to 1997 in charge of manufacturing. He obtained a Bachelor of Science Degree in Chemical Engineering from Taiwan National Cheng Kung University. Mr. Wan joined the Group in 1997 and was appointed as a Director in 2004. Mr. Wan is also a director of PPTL, Pacific Textiles Limited, Pacific HK & China Holdings Ltd, Solid Ally International Limited, Pacific SPM Holdings Ltd., Pacific Textiles Overseas Holdings Ltd, Pacific Overseas Textiles Macao Commercial Offshore Limited (all of which are wholly-owned subsidiaries of our Company).

Mr. TSANG Kang Po, aged 56, is an executive Director and the vice Chairman and a founder of our Group. Mr. Tsang is responsible for sales and marketing and the formulation of the overall corporate direction and business strategies for the Group. Mr. Tsang has over 28 years of experience in the textile industry. He is the vice chairman of Hong Kong Intimate Apparel Industries' Association and a former general manager of Spider Knitters Limited which was dissolved by its members' voluntary liquidation in 2000. Mr. Tsang obtained a MBA degree from The Open University of Hong Kong and a Master of Science in Business Economics from The Chinese University of Hong Kong. Mr. Tsang joined the Group in 1997 and was appointed as a Director in 2004. Mr. Tsang is also a director of PPTL, Pacific Textiles Limited, Pacific HK & China Holdings Ltd. Solid Ally International Limited, Pacific SPM Holdings Ltd., Lehan Resources Limited, Pacific Overseas Textiles Macao Commercial Offshore Limited (all of which are wholly-owned subsidiaries of our Company).

DIRECTORS AND SENIOR MANAGEMENT

Mr. LAM Wing Tak, aged 56, is an executive Director and the Chief Executive Officer of our Company. Mr. Lam is responsible for sales and marketing and the formulation of the overall corporate direction and business strategies for the Group. Mr. Lam has over 30 years of experience in the textile industry. He was a executive director of Fountain Set (Holdings) Limited, which is listed on the Main Board of the Stock Exchange, from 1992 to 1998 in charge of sales and marketing. Mr. Lam obtained a MBA degree from The University of Macau (formerly known as the University of East Asia Macau) and a Bachelor of Business Administration from The Chinese University of Hong Kong. Mr. Lam joined the Group in 1998 and was appointed as a Director in 2004. Mr. Lam is also a director of Pacific Textiles Limited, Pacific HK & China Holdings Ltd, Solid Ally International Limited, Pacific SPM Holdings Ltd., Lehan Resources Limited, Pacific Overseas Textiles Macao Commercial Offshore Limited, Pacific Textiles Overseas Holdings Ltd, Pacific Textured Jersey Holdings Ltd. (all of which are wholly-owned subsidiaries of our Company) and PT Sri Lanka, a 52% owned subsidiary of our Company.

Dr. LAM King Man, aged 51, is an executive Director. Dr. Lam is responsible for overseeing manufacturing and research and development. Dr. Lam has over 25 years of experience in the textile, garment, dyeing and finishing industry. He was a executive director of Fountain Set (Holdings) Limited, which is listed on the Main Board of the Stock Exchange, from 1997 to 1998 in charge of research and development. Dr. Lam obtained a Ph.D. degree from the Postgraduate School of Colour Chemistry and Colour Technology at the University of Bradford, United Kingdom and a Higher Diploma in Textile Chemistry from Hong Kong Polytechnic. He is a Chartered Colourist and a Fellow of The Society of Dyers and Colourists, United Kingdom. Dr. Lam joined the Group in 1998 and was appointed as a Director in 2004. Dr. Lam is also a director of Pacific Textiles Limited, Pacific HK & China Holdings Ltd., Pacific Overseas Textiles Macao Commercial Offshore Limited and Pacific Textured Jersey Holdings Ltd. (all of which are wholly-owned subsidiaries of our Company) and PT Sri Lanka, a 52% owned subsidiary of our Company.

Non-executive Directors

Mr. CHOI Kin Chung, aged 71, is a non-executive Director and a founder of the Group. Mr. Choi co-founded our Group in 1997 and has been the chairman of the Group since its inception until 2005. Mr. Choi is the emeritus chairman of the Company. He has approximately 40 years of experience in the textile industry. He is a co-founder and served as a former vice chairman and executive director of Fountain Set (Holdings) Limited, which is listed on the Main Board of the Stock Exchange, from 1985 to 1996. Mr. Choi was educated in the 華南理工大學·建築系 (School of Architecture, South China University of Technology) and is a Honorary Professor of the University. He is also a Honorary Citizen of Guangzhou City. Mr. Choi was appointed as a Director in 2004. Mr. Choi is also a director of PPTL, Pacific Textiles Limited, Pacific HK & China Holdings Ltd, Pacific Overseas Textiles Macao Commercial Offshore Limited (all of which are wholly-owned subsidiaries of our Company).

Mr. IP Ping Im, aged 70, is a non-executive Director. He is a co-founder and senior partner of our Group. Mr. Ip has over 30 years of experience in the textile industry. He is also the founder of Spider Knitters Limited. Mr. Ip was appointed as a Director in 2004. Mr. Ip is also a director of PPTL, Pacific Textiles Limited, Pacific HK & China Holdings Ltd., Pacific Overseas Textiles Macao Commercial Offshore Limited (all of which are wholly-owned subsidiaries of our Company).

Mr. HO Hsiang Ming, James, aged 47, is a non-executive Director. Mr. Ho is a vice president of Capital International, Inc., responsible for private equity in Asia. Prior to joining Capital International, Inc. in 1996, Mr. Ho was vice president of global equity investments at the Bank of America in Hong Kong. Mr. Ho was a director of ON*Media Corporation, a Korea listed company, from June 2000 to March 2007. He received a Bachelor of Arts in economics from the National Taiwan University and an MBA from the Wharton School of Business at the University of Pennsylvania. Mr. Ho was appointed as a Director in December 2004.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LAU Yiu Tong, aged 59, is a non-executive Director. Mr. Lau has over 30 years of experience in the textile industry. He was a director and group deputy general manager of Fountain Set (Holdings) Limited from 1987 to 1995. Mr. Lau holds a Higher Diploma in Textile Technology from the Hong Kong Technical College. He is a member of the General Committee of Federation of Hong Kong Industries. Mr. Lau was appointed as a non-executive Director in 2007. Mr. Lau is also a director of PPTL, Pacific Textiles Limited, Pacific HK & China Holdings Ltd., Pacific Overseas Textiles Macao Commercial Offshore Limited (all of which are wholly-owned subsidiaries of our Company). Mr. Lau was a director and president of FSTO from May 1996 to April 2006. Mr. Lau was also a director and president of FSTBC from April 1993 to April 2006. Mr. Lau resigned from all these positions on his own volition and has confirmed that he has no intention to participate in the management of either of the FST Companies, and has not had any such role or participation since his resignation. Please see “Other business interest held by a non-executive Director” in “Business — Competition” for other details of the business interest held by Mr. Lau.

Independent Non-executive Directors

Mr. CHAN Yue Kwong, Michael, aged 55, is an INED. He is currently the executive chairman of Café de Coral Holdings Limited, a Hong Kong listed company which he joined in 1984, and has considerable experience in planning and management. Mr. Chan has been an independent non-executive director of Starlite Holdings Limited, a Hong Kong listed company, since 1993. Mr. Chan is a non-executive director of Carats Limited (formerly known as Daka Design Limited), a Singapore listed Company, since 2004. He has been an independent non-executive director of Kingboard Laminates Holdings Limited, a Hong Kong listed Company, since 2006. Mr. Chan holds a Bachelor of Arts, a Master’s degree in City Planning from the University of Manitoba, Canada and an Honorary Doctorate Degree in Business Administration from Southern California University, U.S.A. He is currently an executive committee member of the Hong Kong Retail Management Association, Council Member of the Employers’ Federation of Hong Kong, elected member of the Quality Tourism Services Association, a full member of the Canadian and the Hong Kong Institute of Planners, Lifetime Honorary President of Hong Kong Foodstuffs Association, Honorary Adviser of the Hong Kong Institute of Marketing and the Institute of Business Administrants. Mr. Chan was appointed as an INED in March 2007.

Mr. NG Ching Wah, aged 58, is an INED. Mr. Ng has over 20 years of senior management experience in the telecommunications industry. He is the chief executive officer of Hong Kong CSL Limited. Prior to his current position, he was the chief executive officer of SmarTone Telecommunications Holdings Limited, a Hong Kong listed company and the President of PCCW Mobility Services Limited. Mr. Ng is the Honorary Advisor of the Internet & Telecom Association of Hong Kong, a Council Member of the Hong Kong Trade Development Council and a member of the Digital 21 Strategy Advisory Committee (D21SAC). Mr. Ng graduated from the Chinese University of Hong Kong in 1975, with a Bachelor of Business and Administration. Mr. Ng was appointed as an INED in January 2007.

Mr. SZE Kwok Wing, Nigel, aged 49, is an INED. Mr. Sze has senior management experience in the private and investment banking industry serving high net worth clients and institutions. He currently serves as the chief executive officer of Asia-Pacific for International Private Bank, Barclays Wealth. Prior to his current position, Mr. Sze was an executive director in the private clients division at Morgan Stanley Asia Limited, Hong Kong. Mr. Sze holds a Bachelor of Business from Swinburne University of Technology, Melbourne, Australia. He is a Fellow of CPA Australia. Mr. Sze was appointed as an INED in January 2007.

DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE

We have put in place our corporate governance structure with a view to creating shareholder value. Our Board of Directors, which includes three INEDs out of a total of eleven Directors, is responsible for setting strategic, management and financial objectives and ensuring that the interests of our shareholders, including those of minority shareholders, are protected. Our Board of Directors has established an audit committee, a remuneration committee and a nomination committee.

AUDIT COMMITTEE

An audit committee was established by our Board on April 27, 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and approve the Group's financial reporting process and internal control system. The members of the audit committee are Mr. Sze Kwok Wing, Nigel; Mr. Ng Ching Wah and Mr. Chan Yue Kwong, Michael (who are INEDs). Mr. Sze Kwok Wing, Nigel is the chairman of the audit committee.

REMUNERATION COMMITTEE

A remuneration committee was established by our Board on April 27, 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management of the Group. The members of the remuneration committee are Mr. Chan Yue Kwong, Michael; Mr. Sze Kwok Wing, Nigel; Mr. Ng Ching Wah (who are INEDs); Mr. Lam Wing Tak and Mr. Tsang Kang Po. Mr. Chan Yue Kwong, Michael is the chairman of the remuneration committee.

NOMINATION COMMITTEE

A nomination committee was established by our Board on April 27, 2007 with written terms of reference. The primary duties of the nomination committee are to make recommendations to the Board on the appointment of Directors and the management of the Board succession. The members of the nomination committee are Mr. Ng Ching Wah; Mr. Chan Yue Kwong, Michael; Mr. Sze Kwok Wing, Nigel (who are INEDs); Mr. Lam Wing Tak and Mr. Tsang Kang Po. Mr. Ng Ching Wah is the chairman of the nomination committee.

SENIOR MANAGEMENT

Mr. LAM Hing Chau Leon, aged 49, is our chief financial officer and our company secretary. Mr. Lam is also our qualified accountant for the purposes of Rule 3.24 of the Listing Rules and is employed by the Company on a full-time basis. Mr. Lam is responsible for finance, accounting, company secretarial matters and shipping. Mr. Lam holds a Bachelor's Degree in Social Sciences from the University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Lam also holds an MBA and Master's degrees in Information Systems, Applied Finance and Electronic Commerce. Prior to joining the Group in 2005, he was the executive director, vice president and chief financial officer of CK Life Sciences Int'l (Holdings) Inc., a company listed on the Growth Enterprise Market of the Stock Exchange, from 2002 to 2005.

Mr. KONG Yuen Ching, aged 58, is the general manager, responsible for the raw materials procurement. Mr. Kong is also a director of Pacific Textiles Limited, Pacific HK & China Holdings Ltd. and Pacific Overseas Textiles Macao Commercial Offshore Limited (all of which are wholly-owned subsidiaries of our Company). Mr. Kong has over 30 years of experience in the textile industry. Prior to joining the Group in March 1998, he was the director and general manager of Fountain Set Limited, a subsidiary of Fountain Set (Holdings) Limited, which is listed on the Main Board of the Stock Exchange. Mr. Kong resigned from such positions for personal reasons.

DIRECTORS AND SENIOR MANAGEMENT

Mr. PANG Ping Hung, aged 56, is the general manager, responsible for the printing and finishing division of our Group. Mr. Pang has over 30 years of experience in the textile industry. Prior to joining us in July 2005, he was the director and deputy general manager of Dongguan Shatin Lake Side Textile Printing and Dyeing Company Limited, a subsidiary of Fountain Set (Holdings) Limited, which is listed on the Main Board of the Stock Exchange. Mr. Pang resigned from such positions for personal reasons.

Mr. GOONETILLEKE Rohan, aged 53, is the managing director of Textured Jersey Lanka (Private) Limited since June 2003. Mr. Goonetilleke holds a Bachelor of Science degree in Mechanical Engineering from the University of Portsmouth, United Kingdom. Prior to joining the Group, he was the managing director of Linea Clothing (Private) Limited.

Ms. MOK Sau Fun, aged 39, is the senior accounts manager, responsible for accounting and shipping functions. Ms. Mok has 17 years of experience in the field of finance, auditing and accounting. She holds a MBA from the University of Strathclyde, United Kingdom. She is also a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in May 2000, she was the management accounting manager of Hong Kong Seibu Enterprise Co., Ltd.

Mr. WU Tai Cheung, aged 49, is the finance manager responsible for financial and company secretarial functions. Mr. Wu has over 22 years of experience in the field of financials, auditing, accounting and secretarial matters. Mr. Wu is an independent non-executive director of BEP International Holdings Limited, a Hong Kong listed company, since 2005. He holds a MBA from the University of Newcastle, Australia and a Bachelor's Degree in Accountancy from the University of Bolton, United Kingdom. He is also a member of the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Certified Public Accountants. Before joining the Group in October 2006, he was the financial controller and company secretary of Zhejiang Shibao Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange.

Ms. TSUI Wai Shui, aged 47, is the senior management information systems manager responsible for managing the information systems department. Ms. Tsui holds a Master of Business in Electronic Commerce from the Curtin University of Technology, Australia, a Graduate Diploma in e-Supply-Chain and Logistics Leadership from the University of Hong Kong and a Bachelor's Degree of Business (International Trade) from the Monash University, Australia. She is currently studying for the Global Executive MBA program at the Chinese University of Hong Kong. She has worked for multi-national corporations, including Cathay Pacific Airways and Bulova Corporation. She joined the Group in April 1998. Prior to joining the textile industry, she was the Product Manager of Bulova Corporation.

Mr. KO King Hung, Andrew, aged 38, is a senior sales manager. Mr. Ko has 15 years of experience in the textile industry. He holds a MBA from the Open University of Hong Kong and a Bachelor of Arts Degree in Textile and Clothing Marketing from the Hong Kong Polytechnic University. Mr. Ko is currently enrolled in the Master of Science program in Quality Management at the Hong Kong Polytechnic University. Mr. Ko joined the Group in April 1998.

Ms. HUI Lai Har, Emily, aged 44, is a senior sales manager. Ms. Hui joined the Group in March 1998.

Mr. MAN Wing Sum, aged 46, is a senior sales manager. Mr. Man has been working in the textile industry for more than 20 years. Mr. Man joined the Group in May 1997.

Mr. LAI Chi Man, aged 40, is a senior sales manager. Mr. Lai has 15 years of experience in the textile industry. He holds a Bachelor of Arts Degree in Textile and Clothing Marketing from the Hong Kong Polytechnic University. Mr. Lai obtained a Master of Business Administration Degree (The Kellogg – HKUST EMBA Program) awarded jointly by Northwestern University and the Hong Kong University of Science and Technology. Mr. Lai joined the Group in May 1998.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LI Mao Lin, aged 40, is a senior manager, responsible for the finishing operations of the Group. He holds a Bachelor's Degree in Power Machinery Engineering from 中國上海交通大學 (Shanghai Jiaotong University, China). Mr. Li joined the Group in May 1997.

Mr. NIP Chung Yin, aged 54, is a senior manager, responsible for the knitting operations of the Group. Mr. Nip joined the Group in April 1997.

Mr. ZHAO Qi Zhi, aged 41, is a senior manager, responsible for managing the engineering department of the Group. Mr. Zhao holds a Bachelor's Degree in Mechanical Engineering from 中國上海交通大學 (Shanghai Jiaotong University, China). He has over 15 years of experience in the textile industry. Mr. Zhao joined the Group in June 1997.

Mr. NG Chun Leung, aged 44, is a deputy senior manager, responsible for production control of the Group. Mr. Ng joined the Group in November 1997.

Mr. CHUNG Chi Shing, aged 43, is a deputy senior manager responsible for the dyeing operations of the Group. Mr. Chung joined the Group in September 1998. He holds a Higher Diploma in Textile Chemistry from the Hong Kong Polytechnic University and is a Chartered Colourist and an associate of the Society of Dyers and Colourists, United Kingdom.

Mr. TANG Kwan Wah, aged 54, is a deputy senior manager responsible for the knitting operations of the Group. Mr. Tang has 30 years of experience in the textile industry. Mr. Tang joined the Group in February 1997.

Mr. ZHAO Yang, aged 41, is a deputy senior manager, responsible for infrastructure construction of the Group. He holds a Bachelor's Degree in Construction from 中國深圳大學 (Shenzhen University, China). He joined the Group in 1997.

DIRECTORS' REMUNERATION

The Directors' remuneration for the year ended March 31, 2006 decreased compared to prior years following a decision by the Company's shareholders that non-executive Directors should not receive remuneration and that executive Directors' remuneration should also be adjusted. This adjustment was effective from December 2004. Under the current arrangement, the Directors, excluding the non-executive Directors, are expected to receive an aggregate remuneration and benefits in kind of approximately HK\$26.0 million (including HK\$11.9 million in bonuses) from the Group for the financial year ended March 31, 2007. The INEDs will receive remuneration beginning May 1, 2007 at market levels as determined by the remuneration committee. Going forward, the Company's remuneration committee will be responsible for reviewing the Directors' remuneration. For additional information about our remuneration committee, please see "Directors and Senior Management — Remuneration Committee".

SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to provide the Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to potential participants including employees, directors or non-executive directors (including INEDs) of any member of our Group, as well as certain other persons that the Board determines will be subject to the Share Option Scheme. For further details of the Share Option Scheme, please see "Share Option Scheme" in Appendix VI to this prospectus.

SHARE CAPITAL

The following is a description of the authorized Share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately after completion of the Global Offering.

		HK\$
Authorized Share capital:		
5,000,000,000	Shares of HK\$0.001	5,000,000
Issued Share capital:		
10,747,020	Shares in issue as at the date of this prospectus	10,747
Shares to be issued:		
1,063,954,980	Shares to be issued pursuant to Capitalization Issue	1,063,955
358,234,000	Shares to be issued pursuant to the Global Offering	358,234
Total issued and to be issued Share capital:		
1,432,936,000	Shares of HK\$0.001	1,432,936

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and does not take into account the Shares which may be issued pursuant to any exercise of the Over-allotment Option. It also does not take into account any of the Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme, on the general mandate referred to below or which may be repurchased by the Company under the repurchase mandate referred to below. If the Over-allotment Option is exercised in full, then 53,735,000 additional Shares will be issued resulting in a total enlarged issued share capital of 1,486,671,000 Shares with a nominal value of HK\$0.001 each.

RANKING

The Offer Shares are ordinary shares in the share capital of the Company and rank equally with all Shares currently in issue or to be issued and, in particular, will qualify for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with (including the power to grant any offers, agreements or option which would or might require shares to be issued, allotted or disposed of, whether during continuance of such mandate or thereafter) Shares, other than pursuant to the Global Offering, issued as a result of rights issue, scrip dividend or similar arrangement pursuant to the Articles from time to time, upon the exercise of rights of subscription or conversion attached to any warrants of the Company or upon the exercise of rights of subscription attached to any options which may be granted pursuant to the Share Option Scheme or similar arrangement or a specific authority granted by the shareholders of the Company, with an aggregate nominal value not exceeding:

- 20% of the aggregate nominal value of the share capital of the Company in issue and to be issued immediately following completion of the Global Offering (excluding any Shares which may be issued upon the exercise of the Over-allotment Option) and the Capitalization Issue; and

SHARE CAPITAL

- the aggregate nominal value of the Share repurchased under the authority granted by the Company to the Directors as referred to the paragraph headed “Repurchase Mandate” below (if any).

This general mandate will remain in effect until:

- the conclusion of the next annual general meeting of the Company;
- the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law of Cayman Islands to be held; or
- the revocation or variation by an ordinary resolution of the members in general meeting,

whichever is the earliest.

For further details of this General Mandate, please refer to the paragraph entitled “Further Information about the Company — 3. Written resolutions of the members of the Company passed on April 27, 2007” in Appendix VI to this prospectus.

REPURCHASE MANDATE

Our Directors have been granted a general unconditional mandate to exercise all our powers to repurchase Shares on the Stock Exchange or any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Listing Rules or equivalent rules or regulations of such other stock exchange, with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued immediately following completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Capitalization Issue.

This general mandate will remain in effect until:

- the conclusion of the next annual general meeting of the Company;
- the expiration of the period within which the Company’s next annual general meeting of the Company is required by the Articles or any applicable law of the Cayman Islands to be held; or
- the revocation or variation by an ordinary resolution of the members in general meeting,

whichever is the earliest.

A summary of the relevant Listing Rules concerning the repurchased by the Company of its own Shares is set out in the paragraph headed “Further Information about the Company — Repurchase by the Company of its own Shares” in Appendix VI to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the Global Offering (assuming no exercise of the Over-allotment Option, no exercise of options which may be granted under the Share Option Scheme and no change in shareholding of each of the shareholders of the Company subsequent to the Latest Practicable Date) and the Capitalization Issue, Far East Asia Limited and Silver Bay International Holdings Limited will be our substantial shareholders.

<u>Substantial Shareholders</u>	<u>Capacity/ Nature of Interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding¹</u>
Far East Asia Limited ²	Beneficial owner	400,000,000	27.91%
Silver Bay International Holdings Limited ³	Beneficial owner	171,102,000	11.94%

Notes:

1. Calculations are based on the assumption that there is no exercise of the Over-allotment Option, no exercise of options which may be granted under the Share Option Scheme and no change in shareholding of each of the shareholders of the Company subsequent to the Latest Practicable Date, except for the Capitalization Issue.
2. Far East Asia Limited is wholly-owned by Mr. Ip Ping Im, a Director.
3. Silver Bay International Holdings Limited is wholly-owned by Trustcorp Limited, the trustee of the United Harmony Trust, a discretionary trust set up by Mr. Choi Kin Chung, a Director. Certain members of Mr. Choi Kin Chung's family are the discretionary objects of the United Harmony Trust.

FINANCIAL INFORMATION

You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set forth in the Accountants' Report in Appendix I to this prospectus. We have prepared the consolidated financial information on the basis set out in Section 2 of Appendix I and in accordance with Hong Kong Financial Reporting Standards, which differ in certain material respects from generally accepted principles in other jurisdictions, including the United States.

The summary financial information covering the income statements, cash flow statements, balance sheets and material notes of significant associates will be included in our annual and periodic financial statements after listing.

This prospectus contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which involves risks and uncertainties. Please see "Forward Looking Statements" section in this prospectus. Our future financial condition could differ materially from that discussed in this prospectus. For factors that could cause or contribute to such differences, please refer to "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are a leading manufacturer of customized knitted fabrics with a focus on complex, value-added fabrics. We collaborate closely with apparel brand owners to design fabrics that meet customized order particulars. Our finished fabrics comprise more than 3,000 designs and specifications which we sell to garment manufacturers worldwide to produce garments for premium apparel brand owners. Our fabrics are used in a broad range of garments, including men's, women's and children's clothing, sportswear, swimwear and inner-wear. We have established relationships with owners of leading brands such as Calvin Klein, Maidenform, Triumph, UNIQLO, VF Intimates and Victoria's Secret.

Our principal manufacturing facility is a modern, integrated knitting, dyeing and printing facility in Panyu, China with an aggregate floor space of approximately 294,400 square meters. We offer warp and weft knitting along with printing services. In 2004, as part of our strategy to expand our production volume and the geographic scope of our operations, we acquired a controlling interest in a knitting and dyeing facility in Avissawella, Sri Lanka, namely PT Sri Lanka, and have since expanded its annual production capacity.

The following table sets forth our annual revenue, operating profit, profit attributable to equity holders, operating margin, profit margin and sales volume for each year in the three years ended March 31, 2006 and the eight months ended November 30, 2005 and 2006:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
Selected income statement data:	(in thousands of HK dollars, except sales volume data)				
Revenue	2,265,821	2,922,840	3,363,029	2,187,012	2,887,077
Operating profit	382,031	410,882	555,901	366,170	492,162
Profit attributable to equity holders of the Company	307,299	351,679	458,855	308,344	397,612
Selected operating data:					
Operating margin	16.9%	14.1%	16.5%	16.7%	17.0%
Profit margin	13.6%	12.0%	13.6%	14.1%	13.8%
Sales volume (million pounds)	90	112	126	82	106

FINANCIAL INFORMATION

SUBSEQUENT EVENTS

On April 26, 2007, the Board of Directors declared a special dividend payable to its existing shareholders in an amount of HK\$780 million. The special dividend will be paid on May 17, 2007. Payment of the dividend shall be funded by a new bank loan in an amount of HK\$600 million which will be drawn down no later than one business day prior to the Listing Date, and the balance to be funded from the Company's internal resources. For additional information, see sections "Unaudited Pro Forma Adjusted Net Tangible Assets" and "Dividend Policy and Distributable Reserves" in this prospectus.

FACTORS AFFECTING RESULTS OF OPERATIONS

Our results of operations and the period-to-period comparability of our financial results are affected by a number of factors, including the following principal factors:

Demand for our products. A key driver of our revenues is demand for our weft and warp knitted fabrics. Demand is in turn driven by several key factors, including fashion trends, which affect demand for knitted fabrics generally and demand for the fabrics we manufacture, and general economic conditions, particularly those in the United States, Europe and South East Asia, where the bulk of the garments manufactured with our fabrics are sold.

Product mix. Our revenues are also affected by the selling prices of our products and the mixture of product types. Our product pricing is largely dependent on the fashion trends which dictate our product mix. Average selling prices are affected by the mix of weft and warp knitted fabrics we sell, as well as by the mix of fabrics within each category as each type of fabric commands a different selling price. Although we adjust our product mix according to fashion trends, we maintain our focus on manufacturing complex high margin, value-added fabrics that command higher average selling prices. We are expanding our warp knitted fabric production, which currently enjoys higher average selling prices.

Production volume. Our revenues are affected by the volume of our sales, which is linked to the volume of fabrics we produce. We have experienced significant growth in production volumes resulting from increased capital investment to meet customer demand during the Track Record Period and plan to continue to expand capacity at our Panyu and Sri Lanka facility. For each of the years ended March 31, 2004, 2005, 2006 and the eight months ended November 30, 2006, capital investment in additional machinery and enhancement of our overall infrastructure was HK\$285.8 million, HK\$350.9 million, HK\$272.6 million and HK\$301.9 million, respectively, and production volume was 93.6 million pounds, 111.1 million pounds, 129.1 million pounds and 113.5 million pounds, respectively.

Prices of certain raw materials. Raw material costs comprise costs of cotton, synthetic yarn and the other raw materials required in the manufacture of fabrics. The prices for these can be volatile. Yarn costs represent a substantial majority of our total raw materials costs and cost of sales, comprising 66.2% and 68.2% of our total cost of sales for the financial year ended March 31, 2006 and the eight months ended November 30, 2006. Market prices for cotton yarn are sensitive to agricultural and environmental conditions that are beyond our control and are volatile. The cost of cotton yarn comprised 80% of our total cost of yarn for the eight months ended November 30, 2006. If there is a shortage in cotton crops for any given year, then our margins and profitability may be adversely affected. Our results of operations for the year ended March 31, 2005 were affected by the surge in cotton yarn prices in late 2003 due to inclement weather in China which adversely affected the harvest of cotton, and subsequently, its price.

Cost of labor. As our operations are capital intensive, labor costs represent a relatively small proportion of our total cost of sales. Our low cost of labor provides us with a competitive advantage compared to fabric manufacturers operating in higher-wage locations. While cost of labor has increased in recent years, southern China continues to offer an adequate supply of labor at an attractive cost. We anticipate that labor costs will continue to be subject to upward pressure and seek to mitigate increases in labor cost by enhancing our production process and technology to increase worker productivity.

Distribution and logistics costs. Distribution and logistics costs affect our profitability. We seek to reduce these costs by improving our on-time production (which reduces air-freight charges and late-delivery fees) and managing our inventories efficiently. In this regard, we hope to enjoy the benefits of further concentration of the garment manufacturing industry in Asia following the phase-out of the Multi-Fibre Arrangement in the beginning of 2005.

FINANCIAL INFORMATION

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The selected historical consolidated financial data set forth below have been extracted from the consolidated financial information of the Group for each of the three financial years ended March 31, 2006 and the eight months ended November 30, 2005 and 2006 (the “Financial Information”), all of which is set forth in the Accountants’ Report attached as Appendix I to this prospectus. The Financial Information has been prepared on the basis set out in Section II(2) of Appendix I to this prospectus and in accordance with HKFRS. Investors should read these selected consolidated financial data together with Appendix I to this prospectus and the discussion under the paragraph headed “Results of Operations” below.

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	(in thousands of HK dollars unless otherwise indicated)				
Revenue	2,265,821	2,922,840	3,363,029	2,187,012	2,887,077
Cost of sales	(1,628,508)	(2,283,379)	(2,560,773)	(1,660,654)	(2,222,519)
Gross profit	637,313	639,461	802,256	526,358	664,558
Other revenue	20,152	34,125	48,931	26,064	29,899
Distribution and selling expenses	(149,615)	(128,928)	(129,624)	(83,186)	(95,301)
General and administrative expenses	(125,819)	(133,776)	(165,662)	(103,066)	(106,994)
Operating profit	382,031	410,882	555,901	366,170	492,162
Finance costs	(1,460)	(4,525)	(7,404)	(4,139)	(29,012)
Share of loss of associates	—	—	(272)	—	(886)
Profit before income tax	380,571	406,357	548,225	362,031	462,264
Income tax expense	(73,272)	(55,933)	(78,875)	(51,327)	(59,602)
Profit for the year/period	307,299	350,424	469,350	310,704	402,662
Attributable to:					
Equity holders of the Company	307,299	351,679	458,855	308,344	397,612
Minority interests	—	(1,255)	10,495	2,360	5,050
	307,299	350,424	469,350	310,704	402,662
Dividends	—	127,720	941,205	161,205	234,000
Earnings per share (HK\$ per share) ¹	298.35	71.23	42.70	28.69	37.00

Note:

- The calculation of basic earnings per share of each of the financial years ended March 31, 2004, 2005, 2006 and the eight months ended November 30, 2005 and 2006 is based on the profit attributable to the equity holders of the Company for the relevant periods and the weighted average number of 1,030,000, 4,937,000, 10,747,000, 10,747,000 and 10,747,000 shares respectively.

	As at March 31,			As at November 30,
	2004	2005	2006	2006
	(in thousands of HK dollars)			
Selected balance sheet data:				
Total non-current assets	624,429	854,419	956,292	1,163,335
Total current assets	1,194,793	1,230,243	1,398,436	1,654,080
Total assets	1,819,222	2,084,662	2,354,728	2,817,415
Total current liabilities	674,315	479,400	797,514	996,065
Total assets less current liabilities	1,144,907	1,605,262	1,557,214	1,821,350
Total non-current liabilities	26,776	81,624	469,918	521,792
Total equity	1,118,131	1,523,638	1,087,296	1,299,558
Net current assets	520,478	750,843	600,922	658,015

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The table below sets forth selected results of operations data expressed as a percentage of our revenue, for the periods indicated. Our historical results of operations are not necessarily indicative of the results for any future period.

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	71.9%	78.1%	76.1%	75.9%	77.0%
Gross margin	28.1%	21.9%	23.9%	24.1%	23.0%
Other revenue	0.9%	1.2%	1.5%	1.2%	1.0%
Distribution and selling expenses	6.6%	4.4%	3.9%	3.8%	3.3%
General and administrative expenses	5.6%	4.6%	4.9%	4.7%	3.7%
Operating profit	16.9%	14.1%	16.5%	16.7%	17.0%
Finance costs	0.1%	0.2%	0.2%	0.2%	1.0%
Profit before income tax	16.8%	13.9%	16.3%	16.6%	16.0%
Net margin	13.6%	12.0%	13.6%	14.1%	13.8%

Revenue Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Our revenue mainly consists of sales of apparel and industry fabrics for men's, women's and children's clothing, sportswear, swimwear and inner-wear. Our sales volume is driven by customer demand and supplier pricing, our average selling prices, and our ability to maintain a product mix that is current with fashion trends. Sales revenue is recognized when goods are delivered to customers or shipped to customers overseas and is mainly denominated in Hong Kong and US dollars.

Cost of sales The key components of our cost of sales are labor costs and production costs, including depreciation.

Other revenue Other revenue comprises sub-contracting income, sale of residual materials, interest income and dividend income from listed investments. Sub-contracting income mainly represents printing and knitting processes undertaken for customers.

Distribution and selling expenses Distribution and selling expenses consist principally of freight, declaration and customs charges, cargo insurance and customer claims relating to product defects and testing expenses.

General and administrative expenses General and administrative expenses consist mainly of salary and other staff expenditures, professional services fees, occupancy costs, traveling, depreciation of office equipment, entertainment expenses and bank charges.

Finance costs Finance costs consist of interest expense from bank loans and overdrafts, and obligations under finance lease.

Taxation Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the three years ended March 31, 2006 and eight months ended November 30, 2006. The Hong Kong Inland Revenue Department ("IRD") ceased the practice of a 50/50 split of manufacturing profit beginning the year of assessment 2000/01. Consequently, we were required to provide for additional tax assessments for years of assessment 2000/01 and 2001/02 of HK\$6.1 million and HK\$11.8 million, respectively, which were provided for in the year ended March 31, 2003. There was no additional tax assessment for the years of assessment 2002/03 and 2003/04 as we prepared profits tax returns on a basis not reliant on the 50/50 split of manufacturing profit, as agreed with the IRD.

FINANCIAL INFORMATION

In accordance with Article 8 of the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (《中華人民共和國外商投資企業和外國企業所得稅法》) as a productive wholly-owned foreign enterprise scheduled to operate for a period of not less than ten years, our subsidiary PPTL and our associated company, SPM Automotive, are entitled to a two-year income tax exemption period and a 50% reduction in enterprise income tax for three years thereafter. This tax scheme commenced in the first profitable year after offsetting all unexpired tax losses carried forward from previous years and, for PPTL, expired on December 31, 2005. Since then, PPTL has enjoyed a 12% income tax, a 50% reduction from the actual tax rate of 24% in accordance with Article 75 of the Detailed Rules and Regulations for the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (《中華人民共和國外商投資企業和外國企業所得稅法實施細則》), subject to annual approval by the Guangzhou Nansha Development Area National Administration of Taxation. We have received approval for tax reduction for the calendar years ended December 31, 2006 and 2007.

On November 10, 2004 the Nansha Tax Bureau issued an interim report to PPTL setting out its preliminary opinion regarding adjustments on the profit of PPTL for the years of assessment of 2001 to 2003. The Nansha Tax Bureau considered that transfer pricing had been adopted by PPTL for sales and purchase transactions with its associated enterprises. On the basis of the review conducted by the Nansha Tax Bureau, PPTL was preliminarily assessed to be liable for an additional income tax liability of approximately RMB50.5 million (“preliminary assessment”). The Company understands that the preliminary assessment was made by reference to a few companies from an internal database of enterprise taxpayers maintained by the tax authority. On receiving the interim report, PPTL liaised with the Nansha Tax Bureau and managed to convince the authority that the preliminary assessment was not appropriate having considered factors including the industry nature, size, business scope and capital structure of PPTL. The Nansha Tax Bureau issued a final report on February 28, 2005 (the “Final Report”) confirming the final additional income tax liability of approximately RMB7.6 million to be payable by PPTL in respect of the year of assessments of 2001 to 2003. PPTL settled the additional tax payment after that. We have been employing transfer prices based on the lower deemed profit margin as agreed in the Final Report as compared to the rate set out in preliminary assessment and there is no indication from the Nansha Tax Bureau that there will be any change to the rate agreed in the Final Report. Income tax payable of RMB4.5 million and RMB3.1 million were provided for in the Group’s financial statements for the years ended March 31, 2004 and March 31, 2005, respectively. The calculation was agreed between the Company and Nansha Tax Bureau and was based on the deemed assessable profit. The extent of the current transfer pricing arrangement employed by PPTL is consistent with the previous consultation with Nansha Tax Bureau. Since the inquiry and discussion with the Nansha Tax Bureau in 2005, there has been no change in the business scope of PPTL and there has been no further inquiry from the Nansha Tax Bureau.

According to the Law of the People’s Republic of China Concerning the Administration of Tax Collection (《中華人民共和國稅收徵收管理法》) since business transactions between a taxpayer and its associated enterprises shall be conducted in the same manner as those between independent enterprises in respect of the amounts of receipts or payments, where the business transactions which give rise to the receipts or payments are not carried out on the same bases as those between independent enterprises and result in a reduction of taxable income of the taxpayer, the tax authorities have the power to make reasonable adjustment and order the taxpayer to pay the adjusted tax.

According to the Administration Rules of Tax on Business Transactions between Affiliated Enterprises (Revised) (《關聯企業間業務往來稅務管理規程》(修訂)) (“Rules”) promulgated by the State Administration of Taxation on October 22, 2004, every foreign-owned or foreign-invested enterprise in the PRC which has transactions with its related companies incorporated overseas should file the “Annual Declaration for Transactions with Related Parties for Foreign-owned and Foreign-invested Enterprises” (《外商投資企業和外國企業與其關聯企業往來情況年度申報表》) (“Related Party Transactions Return”). Recently, the State Administration of Taxation promulgated a notice to clarify the effectiveness of the rules related to the tax administration on business transactions between associated enterprises (《國家稅務總局關於明確與關聯企業間業務往來稅務管理有關文件效力問題的通知》)

FINANCIAL INFORMATION

on August 23, 2006, without the revision of the specific clauses in the Rules. Prior to the promulgation of the Rules, the filing of Related Party Transactions Return was governed by the Administration Rules of Tax on Business Transactions between Affiliated Enterprises (Trial Implementation) (《關聯企業間業務往來稅務管理規程》(試行)) promulgated by the State Administration of Taxation on April 23, 1998. Pursuant to the Rules, any company which fails to file the Related Party Transactions Returns may be ordered to file the required returns for the previous periods within a stipulated date, and may be subject to a fine of up to RMB10,000. Also, the relevant tax bureau may, based on a review of the Related Party Transactions Return filed and other relevant documents, make reasonable adjustments on such company's taxable profits and order the company to pay an adjusted tax.

PPTL began filing the Related Party Transactions Returns in accordance with the Rules in the calendar year 2004. As mentioned previously, the Nansha Tax Bureau conducted an inquiry in 2004 on the transfer pricing of PPTL for the period beginning from PPTL's date of incorporation until calendar year-end 2003 and issued a Final Report on the adjustment of PPTL's taxable profits on February 28, 2005 imposing no penalties. PPTL settled the additional tax assessment in accordance with the Final Report. For the calendar years 2004 and 2005, PPTL filed the Related Party Transactions Returns within the prescribed period in compliance with the Rules. For the calendar year 2006, PPTL has filed the relevant return within the prescribed period. Regarding the Related Party Transactions Return filings, the Company's PRC counsel confirmed that PPTL is currently in compliance with the relevant laws and regulations.

The subsidiary established and operated in Sri Lanka, PT Sri Lanka, is exempt from income tax on its profits for a period of 15 years from the first year it commenced commercial operations in September 2001.

The subsidiary established in Macau has been exempted from Macau tax assessments in accordance with Article 12 of the Decree Law No. 58/99M since its incorporation in December 2002.

Pursuant to the Deed of Indemnity, the Indemnifiers have agreed to indemnify the Group for, among other things, any other tax liability which is or may be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the Listing Date. For further details in this respect, please see "Other Information — 1. Deed of Indemnity" in Appendix VI to this prospectus.

THE LATEST FINANCIAL PERIOD REPORTED ON BY THE REPORTING ACCOUNTANTS REQUIRED UNDER THE LISTING RULES AND THE COMPANIES ORDINANCE

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, we are required to include in this prospectus a statement as to the gross trading income or sales revenue during the three years preceding the issue of this prospectus.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, we are required to include in this prospectus a report by our auditors and reporting accountants with respect to our financial results for each of the three financial years immediately preceding the issue of this prospectus.

According to Rule 4.04(1) of the Listing Rules, we are required to include in this prospectus an Accountants' Report covering the consolidated results of the Group in respect of each of the three financial years immediately preceding the issue of this prospectus.

The Accountants' Report for the three years ended March 31, 2006 and the eight months ended November 30, 2006 including the results for the eight months ended November 30, 2005 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus is issued within a short period of time after March 31, 2007, the Accountants' Report has not been prepared for the full year ended March 31, 2007 as it would be unduly burdensome for us to do so.

FINANCIAL INFORMATION

Because of such circumstances, an application has been made to the SFC for a certificate of exemption from strict compliance with paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance in relation to the inclusion of the Accountants' Report for the full year ended March 31, 2007 in this prospectus on the ground that it would be unduly burdensome for us to do so and a certificate of exemption has been granted by the SFC under section 342A(I) of the Companies Ordinance.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules, and such waiver has been granted by the Stock Exchange subject to the conditions that (i) this prospectus will be issued on or before May 7, 2007 and (ii) the Listing Date is on or before June 30, 2007 on the grounds that it would be unduly burdensome for the Company to do so.

Our Directors have confirmed that they have performed sufficient due diligence on the Group to ensure that there has been no material adverse change in the financial and trading positions or prospects of the Group since November 30, 2006, and there has been no event since November 30, 2006 which materially affected the information shown in the Accountants' Report set out in Appendix I to this prospectus.

Eight months ended November 30, 2006 compared with eight months ended November 30, 2005

Revenue

For the eight months ended November 30, 2006, the Group's revenue was HK\$2,887.1 million, representing an increase of HK\$700.1 million or 32.0%, from HK\$2,187.0 million for the eight months ended November 30, 2005. The increase in revenue was mainly due to the expansion of our production capacity, increase in sales volume driven by an increase in our warp knit production and a slight increase in our average selling price. Sales volume for the eight months ended November 30, 2006 was 106 million pounds, an increase of 29.3% from 82 million pounds for the eight months ended November 30, 2005.

Cost of Sales

For the eight months ended November 30, 2006, cost of sales was HK\$2,222.5 million, representing an increase of HK\$561.8 million, or 33.8%, from HK\$1,660.7 million for the eight months ended November 30, 2005, principally due to our increase in sales volume. The improvement in manufacturing efficiency was offset by an increase in yarn price which resulted in an increase of cost of sales from 75.9% of the revenue for the eight months ended November 30, 2005 to 77.0% of the revenue for the eight months ended November 30, 2006. For the eight months ended November 30, 2006, the average yarn price increased by HK\$0.9 per pound, or 7.6%, as compared to the eight months ended November 30, 2005. Our gross profit was HK\$664.6 million for the eight months ended November 30, 2006, representing an increase of HK\$138.3 million, or 26.3%, from HK\$526.3 million for the eight months ended November 30, 2005, and a decrease of 1.1% in gross margin.

Other Revenue

For the eight months ended November 30, 2006, our other revenue was HK\$29.9 million, representing an increase of HK\$3.8 million, or 14.6%, from HK\$26.1 million for the eight months ended November 30, 2005. This increase was principally due to an increase in sales of residual materials as a result of the increase in production volume.

Distribution and Selling Expenses

For the eight months ended November 30, 2006, distribution and selling expenses were HK\$95.3 million, representing an increase of HK\$12.1 million, or 14.5%, from HK\$83.2 million for the eight months ended November 30, 2005. The increase was mainly due to provisions for customer claims for product defects in the amount of HK\$10.5 million.

FINANCIAL INFORMATION

General and Administrative Expenses

For the eight months ended November 30, 2006, general and administrative expenses were HK\$107.0 million, representing an increase of HK\$3.9 million or 3.8%, from HK\$103.1 million for the eight months ended November 30, 2005. The increase was significantly below the increase in revenue mainly due to the write-off of a goodwill of HK\$10.4 million and HK\$9.5 million loss on disposal of property, plant and equipment mainly due to the demolition of warehouse facilities allocated for construction of production plant for the eight months ended November 30, 2005. The goodwill arising from the acquisition of 52% of PT Sri Lanka was written off as the Directors believed that there was uncertainty in the development of PT Sri Lanka at the beginning of the financial year ended March 31, 2006.

Operating Profit

For the eight months ended November 30, 2006, our operating profit was HK\$492.2 million, representing an increase of HK\$126.1 million, or 34.4%, from HK\$366.1 million for the eight months ended November 30, 2005, and an increase of 0.3% in our operating margin. This increase is principally attributable to higher revenue and success in managing our distribution and selling and general and administrative expenses which was partially offset by higher costs of sales principally as a result of higher production costs and employment related expenses.

Finance Costs

For the eight months ended November 30, 2006, finance costs were HK\$29.0 million, representing an increase of HK\$24.9 million or 607.3%, from HK\$4.1 million for the eight months ended November 30, 2005. The increase reflects increased level of borrowings from a partial drawdown of a syndicated loan of HK\$780.0 million and increase in the interest rates.

Share of Loss of Associates

For the eight months ended November 30, 2006, we recorded our share of loss of associates in the amount of HK\$0.9 million from our recently established associated companies, Fillattice-Pacific and SPM Automotive.

Profit before Income Tax

For the eight months ended November 30, 2006, our profit before income tax was HK\$462.3 million, representing an increase of HK\$100.3 million, or 27.7%, from HK\$362.0 million for the eight months ended November 30, 2005.

Income Tax Expense

For the eight months ended November 30, 2006, our taxes were HK\$59.6 million, representing an increase of HK\$8.3 million, or 16.2%, from HK\$51.3 million for the eight months ended November 30, 2005. The effective tax rate decreased from 14.2% to 12.9% for the eight months ended November 30, 2006 as compared to the eight months ended November 30, 2005. The lower effective tax rate for the eight months ended November 30, 2006 was mainly caused by a higher proportion of profits earned in tax jurisdictions in which we enjoy beneficial tax treatment. For additional information, please see "Financial Information — Results of Operations — Taxation".

Profit Attributable to Equity Holders of the Company

For the eight months ended November 30, 2006, our profit attributable to equity holders of the Company was HK\$397.6 million, representing an increase of HK\$89.3 million, or 29.0%, from HK\$308.3 million for the eight months ended November 30, 2005.

FINANCIAL INFORMATION

Year ended March 31, 2006 compared with year ended March 31, 2005

Revenue

For the year ended March 31, 2006, the Group's revenue was HK\$3,363.0 million, representing an increase of HK\$440.2 million, or 15.1%, from HK\$2,922.8 million for the year ended March 31, 2005. This growth was principally the result of an increase in sales volume as a result of the expansion of our production. The sales volume for the year ended March 31, 2006 was 126 million pounds, an increase of 12.5% from 112 million pounds in the year ended March 31, 2005. Revenue for the year ended March 31, 2006 was driven largely by growth in sales volume of our weft knitted and warp knitted fabrics. It also included the full year's revenue of PT Sri Lanka whereas only four months of revenue were included in the previous year.

Cost of Sales

For the year ended March 31, 2006, cost of sales was HK\$2,560.8 million, representing an increase of HK\$277.4 million, or 12.1%, from HK\$2,283.4 million for the year ended March 31, 2005, principally due to our increase in sales volume. Reduced cost from the drop in yarn prices and improvements in operating efficiency led to a decrease in cost of sales of 78.1% of revenue for the year ended March 31, 2005 to 76.1% of revenue for the year ended March 31, 2006. Our gross profit was HK\$802.2 million for the year ended March 31, 2006, representing an increase of HK\$162.8 million, or 25.5%, from HK\$639.4 million for the year ended March 31, 2005.

Other Revenue

For the year ended March 31, 2006, our other revenue was HK\$48.9 million, representing an increase of HK\$14.8 million, or 43.4%, from HK\$34.1 million for the year ended March 31, 2005. This increase principally reflects a waiver of a loan by a former shareholder of PT Sri Lanka in the amount of HK\$11.5 million in the financial year ended March 31, 2006. The former shareholder of PT Sri Lanka agreed to waive the repayment of the loan extended to PT Sri Lanka upon the final payment of the purchase consideration by the minority shareholder of PT Sri Lanka to the former shareholder of PT Sri Lanka in December 2005 in respect of the shares transferred to them.

Distribution and Selling Expenses

For the year ended March 31, 2006, distribution and selling expenses were HK\$129.6 million, representing a slight increase of HK\$0.7 million, or 0.5%, from HK\$128.9 million for the year ended March 31, 2005. The increase, which was significantly lower than our revenue increase, was mainly due to improvements in production scheduling and logistics management.

General and Administrative Expenses

For the year ended March 31, 2006, general and administrative expenses were HK\$165.6 million, representing an increase of HK\$31.8 million or 23.8%, from HK\$133.8 million for the year ended March 31, 2005. The increase was mainly due to write-offs of goodwill of HK\$10.4 million for investment in PT Sri Lanka and inclusion of the full year expenses of PT Sri Lanka of HK\$17.0 million compared to four months for the year ended March 31, 2005 of HK\$5.5 million.

Operating Profit

For the year ended March 31, 2006, our operating profit was HK\$555.9 million, representing an increase of HK\$145.1 million, or 35.3%, from HK\$410.8 million for the year ended in March 31, 2005, and an increase of 2.4% in our operating margin. This increase is attributable to the increase in sales volume across all product lines, a more profitable product mix, higher manufacturing efficiencies, reduced costs for raw materials, increased productivity and improvement in logistics management.

FINANCIAL INFORMATION

Finance Costs

For the year ended March 31, 2006, finance costs were HK\$7.4 million, representing an increase of HK\$2.9 million or 64.4%, from HK\$4.5 million for the year ended March 31, 2005. The increase reflects increased level of borrowings in 2005 and increases in the effective interest rates. Borrowings as at March 31, 2006 were HK\$717.6 million compared to HK\$168.1 million as at March 31, 2005. The increase reflects an increased level of borrowings from a partial drawdown of a syndicated loan of HK\$780.0 million.

Share of Loss of Associates

For the year ended March 31, 2006, we recorded our share of loss of an associate in the amount of HK\$0.3 million from our 33% interest in SPM Automotive.

Profit before Income Tax

For the year ended March 31, 2006, our profit before income tax was HK\$548.2 million, representing an increase of HK\$141.9 million, or 34.9%, from HK\$406.3 million for the year ended March 31, 2005.

Income Tax Expense

For the year ended March 31, 2006, our taxes were HK\$78.9 million, representing an increase of HK\$23.0 million, or 41.1%, from HK\$55.9 million for the year ended March 31, 2005. The effective tax rate increased to 14.4% from 13.8% for the year ended March 31, 2006 as compared to the year ended March 31, 2005. The higher effective tax rate for the year ended March 31, 2006 was mainly due to a higher amount of non-tax deductible expenses in the year resulting from a change in provisions for doubtful debt.

Profit Attributable to Equity Holders

For the year ended March 31, 2006, our profit attributable to equity holders was HK\$458.8 million, representing an increase of HK\$107.1 million, or 30.5%, from HK\$351.7 million for the year ended March 31, 2005.

Year ended March 31, 2005 compared with year ended March 31, 2004

Revenue

For the year ended March 31, 2005, the Group's revenue was HK\$2,922.8 million, representing an increase of HK\$657.0 million, or 29.0%, from HK\$2,265.8 million, for the year ended March 31, 2004. The increase in revenue was due to higher average selling prices and increases in sales volume across product lines. Sales volume for the year ended March 31, 2005 was 112 million pounds, an increase of 24.4% from 90 million pounds for the year ended March 31, 2004, due largely to capacity expansion at our Panyu facility. For further discussion on capacity expansion, please see "Business — Production Process and Facilities — Production Volume".

Cost of Sales

For the year ended March 31, 2005, our cost of sales was HK\$2,283.4 million, representing an increase of HK\$654.9 million, or 40.2%, from HK\$1,628.5 million for the year ended March 31, 2004. Cost of sales accounted for 78.1% of our total revenue for the year ended March 31, 2005, compared to 71.9% for the year ended March 31, 2004. The increase in cost of sales as a percentage of the revenue was driven largely by higher yarn prices starting from the last quarter of calendar year 2003, through the end of calendar year 2004. For the year ended March 31, 2005, gross profits were HK\$639.4 million,

FINANCIAL INFORMATION

representing an increase of HK\$2.1 million, or 0.3%, from HK\$637.3 million for the year ended March 31, 2004. The increase in gross profits was marginal due to an increase in the cost of raw materials. This increase resulted from the result of the surge in yarn prices in late 2003 due to reduced cotton yields resulting from inclement weather in China which adversely affected the harvest of cotton, and subsequently, its price.

Other Revenue

For the year ended March 31, 2005, other revenues were HK\$34.1 million, representing an increase of HK\$13.9 million, or 68.8%, from HK\$20.2 million for the year ended March 31, 2004. The increase in other revenue was primarily due to the clearance of scrap materials and rejected finished products carried forward from previous years to improve warehouse management.

Distribution and Selling Expenses

For the year ended March 31, 2005, distribution and selling expenses were HK\$128.9 million, representing a decrease of HK\$20.7 million, or 13.8%, from HK\$149.6 million for the year ended March 31, 2004. The decrease was mainly due to the improvement in credit and collection management resulting in the write-back of provisions for bad and doubtful debts of HK\$6.7 million.

General and Administrative Expenses

For the year ended March 31, 2005, general and administrative expenses were HK\$133.8 million, representing an increase of HK\$8.0 million, or 6.4%, from HK\$125.8 million for the year ended March 31, 2004. The increase was mainly attributable to the inclusion of the four months' expenses of HK\$5.5 million from PT Sri Lanka which became a subsidiary of the Group in December 2004.

Operating Profit

Operating profit for year ended March 31, 2005 was HK\$410.8 million, representing an increase of HK\$28.7 million, or 7.5%, from HK\$382.1 million for the year ended in March 31, 2004. However, the operating profit margin decreased by 2.8%. Despite a reduction in distribution and selling expenses, general and administrative expenses; the surge in raw material costs specifically increased the cost of cotton yarn in late 2003 due to reduced cotton yields resulting from inclement weather in China and resulted in the reduction in the operating profit margin.

Finance Costs

For the year ended March 31, 2005, finance costs were HK\$4.5 million, representing an increase of HK\$3.0 million or 200.0%, from HK\$1.5 million for the year ended March 31, 2004. Finance costs increased primarily due to incorporation of the four months' finance costs of HK\$2.4 million from PT Sri Lanka which became a subsidiary since December 2004.

Profit before Income Tax

For the year ended March 31, 2005, our profit before income tax was HK\$406.3 million representing an increase of HK\$25.7 million, or 6.8%, from HK\$380.6 million for the year ended March 31, 2004.

Income Tax Expense

For the year ended March 31, 2005, taxes were HK\$55.9 million, representing a decrease of HK\$17.4 million, or 23.7%, from HK\$73.3 million for the year ended March 31, 2004. The effective tax rate decreased from 19.3% in 2004 to 13.8% for the year ended March 31, 2005. The higher effective tax rate for the year ended March 31, 2004 was mainly due to expenses which were not tax deductible and the under-provision for taxes in prior years.

FINANCIAL INFORMATION

Profit Attributable to Equity Holders of the Company

For the year ended March 31, 2005, our profit attributable to equity holders was HK\$351.7 million, representing an increase of HK\$44.4 million, or 14.4%, from HK\$307.3 million for the year ended March 31, 2004.

FINANCIAL RATIOS

Gross margin

Gross profit margin was 23.0% in the eight months ended November 30, 2006 compared with 24.1% in the eight months ended November 30, 2005, and 23.9% in the year ended March 31, 2006 compared with 21.9% in the year ended March 31, 2005 and 28.1% in the year ended March 31, 2004. This decrease of 1.1% in the eight months ended November 30, 2006 as compared with November 30, 2005 was mainly due to the increase in our cost of sales. The increase of 2.0% in the year ended March 31, 2006 as compared with March 31, 2005 was mainly due to increased sales volume and reduced cost of sales. The decrease of 6.2% in the year ended March 31, 2005 as compared with March 31, 2004 was mainly due to higher yarn prices as a result of reduced cotton yields due to inclement weather in China.

Operating margin

Operating margin was 17.0% for the eight months ended November 30, 2006 compared to 16.7% in the eight months ended November 30, 2005, and 16.5% in the year ended March 31, 2006, compared to 14.1% in the year ended March 31, 2005 and 16.9% in the year ended March 31, 2004. The increase of 0.3% in the eight months ended November 30, 2006 as compared with November 30, 2005 was mainly due to the success in managing our distribution and selling and general and administrative expenses which was partially offset by higher production costs and employment related expenses. The increase of 2.4% in the year ended March 31, 2006 as compared with March 31, 2005 was mainly due to a more profitable product mix, higher manufacturing efficiencies, reduced costs for raw materials, increased productivity and improvement in logistics management. The decrease of 2.8% in the year ended March 31, 2005 as compared with March 31, 2004 was mainly due to higher yarn prices from reduced cotton yields resulting from inclement weather in China in late 2003 which lasted through the end of calendar year 2004.

Profit margin

Profit margin was 13.8% for the eight months ended November 30, 2006 compared to 14.1% in the eight months ended November 30, 2005, and 13.6% in the year ended March 31, 2006, compared to 12.0% in the year ended March 31, 2005 and 13.6% in the year ended March 31, 2004. This decrease of 0.3% in the eight months ended November 30, 2006 as compared with November 30, 2005 was mainly due to higher cost of sales principally as a result of higher yarn costs and employment related expenses. The increase of 1.6% in the year ended March 31, 2006 as compared with March 31, 2005 was mainly due to reduced cost from a drop in yarn prices, improvements in operating efficiency and logistics management as well as production scheduling. The decrease of 1.6% in the year ended March 31, 2005 as compared with March 31, 2004 was mainly due to higher yarn prices from reduced cotton yields resulting from inclement weather in China in late 2003 and calendar year 2004.

Sales by geographical locations

The Group's sales by geographical locations are determined by the final destination to which our fabrics are delivered. For instance, our increased sales to China resulted from more customer requests to ship our products to their garment manufacturing operations in China. The increase in sales to Sri Lanka are mainly driven by PT Sri Lanka. The table below shows our turnover and percentage of turnover by geographical location.

FINANCIAL INFORMATION

	Year ended March 31,						Eight months ended November 30,			
	2004		2005		2006		2005 (unaudited)		2006	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Hong Kong	616,760	27.2	637,094	21.8	675,022	20.0	462,935	21.2	627,675	21.7
China	392,822	17.3	745,428	25.5	896,333	26.7	554,094	25.3	710,582	24.6
Sri Lanka	164,087	7.2	309,784	10.6	524,722	15.6	328,102	15.0	470,200	16.3
Vietnam	111,681	4.9	121,133	4.1	135,934	4.0	86,915	4.0	80,821	2.8
USA	99,706	4.4	146,148	5.0	125,985	3.7	90,151	4.1	95,134	3.3
Honduras	83,771	3.7	49,626	1.7	46,569	1.4	32,232	1.5	11,177	0.4
Macau	73,554	3.3	58,895	2.1	40,370	1.2	26,396	1.2	48,358	1.7
Jordan	64,989	2.9	131,452	4.5	159,559	4.8	116,417	5.3	129,367	4.5
Indonesia	56,520	2.5	88,087	3.0	134,109	4.0	73,166	3.4	156,641	5.4
Philippines	37,573	1.7	50,264	1.7	94,222	2.8	66,553	3.0	89,523	3.1
Others ¹	564,358	24.9	584,929	20.0	530,204	15.8	350,051	16.0	467,599	16.2
	<u>2,265,821</u>	<u>100.0</u>	<u>2,922,840</u>	<u>100.0</u>	<u>3,363,029</u>	<u>100.0</u>	<u>2,187,012</u>	<u>100.0</u>	<u>2,887,077</u>	<u>100.0</u>

Note:

1. Australia, Austria, Bangladesh, Brazil, Brunei Darussalam, Cambodia, Canada, Colombia, Egypt, Germany, Guatemala, India, Israel, Italy, Japan, Kenya, Korea, Madagascar, Malaysia, Maldives, Mauritius, Mexico, Morocco, Myanmar, Netherlands, Nicaragua, Northern Marianas Islands, Pakistan, Romania, Russia, El Salvador, Singapore, Spain, Switzerland, Taiwan, Thailand, United Arab Emirates and United Kingdom.

LIQUIDITY AND CAPITAL RESOURCES

Financial resources

During the Track Record Period, we funded our growth principally from equity and shareholders' funding as well as net cash generated from our operations and bank borrowings. Our Directors confirm that we did not experience any liquidity problems during the Track Period Record or stub period.

As at November 30, 2006, we had total bank and cash balances and time deposits of HK\$135.9 million, including HK\$52.5 million, the equivalent of HK\$61.8 million in US currency and the equivalent of HK\$17.1 million in Renminbi and other currencies amounting to an equivalent of HK\$4.5 million. The bank and cash balances and time deposits are required to finance our working capital and part of our capital expenditure plans in light of our continuing high growth and expansion plan.

As at November 30, 2006, we had a total of approximately HK\$1,244.9 million in general credit facilities entered into with banks and financial institutions, of which HK\$867.5 million was utilized. As at the Latest Practicable Date, we had a total availability of approximately HK\$1,119.5 million in banking facilities, of which HK\$867.2 million was utilized. Our loans, with the exception of a syndicated loan, are generally short-term, ranging from two weeks to three months, and are denominated mainly in Hong Kong dollars or US dollars.

We believe that the proceeds of the Global Offering, together with our current bank and cash balances and time deposits, our lines of credit and net cash provided by operating activities will be sufficient to meet our material commitments and anticipated cash needs for working capital, capital expenditures, business expansion, investments and debt repayment for at least the next 12 months. Thereafter, we plan to finance our operations with net cash generated from our operations and, if required, additional debt or equity financing. We can give no assurance that we will be able to raise additional capital on terms acceptable to us or at all. Please see "Risk Factors — Failure to secure additional funding in the future may materially and adversely affect our growth prospects and future profitability". The sale of additional equity or equity-linked securities may result in dilution to our shareholders. From time to time, we evaluate possible investments, acquisitions, divestments or mergers and may, if a suitable opportunity arises, make an investment, acquisition or divestment or enter into a merger.

FINANCIAL INFORMATION

Cash flow

We conduct all of our operations through our operating subsidiaries and associates, some of which we do not wholly own. Therefore, we may not be able in all circumstances to allocate our free cash flow as we would like among our subsidiaries. In addition, the cash flows generated by our significant operating subsidiaries on a stand-alone basis may differ significantly from that represented by our combined cash flow data.

The following table presents selected cash flow data from the Company's consolidated cash flow statements for the periods set forth below, respectively:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	(in thousands of HK dollars unless otherwise indicated)				
Net cash generated from operating activities	18,748	546,552	566,647	411,142	368,612
Net cash used in investing activities	(290,158)	(242,939)	(281,781)	(190,668)	(304,821)
Net cash generated from/(used in) financing activities	239,287	(183,863)	(382,179)	(185,360)	(65,711)
Net (decrease)/increase in cash and cash equivalents	(32,123)	119,750	(97,313)	35,114	(1,920)

Cash flow for the eight months ended November 30, 2006 compared with the eight months ended November 30, 2005

Net cash generated from operating activities for the eight months ended November 30, 2006 was HK\$368.6 million, while operating cash flows before changes in working capital were HK\$619.5 million. The difference of HK\$250.9 million was primarily due to an increase of HK\$166.6 million in trade and bills receivables, an increase of HK\$76.4 million in inventories, a decrease of HK\$16.7 million in trade and bills payable and interest payment of HK\$29.0 million, which were partially offset by an increase in accruals and other payables of HK\$71.6 million.

Net cash used in investing activities for the eight months ended November 30, 2006 was HK\$304.8 million. The cash outflows related primarily to the purchase of properties, plant, and equipment in the amount of HK\$300.0 million, which mainly included the purchase of plant and machineries, the construction project relating to the cogeneration power plant, water treatment plant and others.

Net cash used in financing activities for the eight months ended November 30, 2006 was HK\$65.7 million. The cash used was primarily for a payment of dividend in the amount of HK\$234.0 million and the repayment of bank borrowings in the amount of HK\$130.3 million, which was partly offset by new bank borrowings in the amount of HK\$299.1 million.

Cash flow for the year ended March 31, 2006

Net cash generated from operating activities for the year ended March 31, 2006 was HK\$566.6 million, while operating cash flows before changes in working capital were HK\$745.7 million. The difference of HK\$179.1 million was primarily due to an increase of HK\$159.2 million in inventories, an increase of HK\$113.7 million in trade and bills receivables and payment of Hong Kong profits tax and overseas tax of HK\$47.5 million, which were partially offset by an increase of HK\$97.0 million in trade creditors and bills payables and an increase of HK\$30.6 million in accruals and other payables.

Net cash used in investing activities for the year ended March 31, 2006 was HK\$281.8 million. The cash outflows related primarily to the purchase of properties, plant and equipment in the amount of HK\$272.2 million, which included the purchase of plant and machinery, the construction of production facilities for increased capacity and others.

FINANCIAL INFORMATION

Net cash used in financing activities for the year ended March 31, 2006 was HK\$382.2 million. The cash used was primarily for a payment of dividends in the amount of HK\$941.2 million and the repayment of bank borrowings in the amount HK\$124.0 million, which was partly offset by new bank borrowings in the amount of HK\$672.8 million.

Cash flow for the year ended March 31, 2005

Net cash generated from operating activities for the year ended March 31, 2005 was HK\$546.6 million, while operating cash flows before changes in working capital were HK\$546.0 million. The difference of HK\$0.6 million was primarily due to a decrease of HK\$63.1 million in trade and bills payables, a decrease of HK\$11.0 million in accruals and other payables and payment of Hong Kong profits tax and overseas tax of HK\$52.2 million, offset by a decrease of HK\$124.8 million in inventories.

Net cash used in investing activities for the year ended March 31, 2005 was HK\$242.9 million. The cash outflows related primarily to the purchases of property, plant and equipment in the amount of HK\$232.1 million, which included the purchase of plant and machinery, the construction of production facilities for increased capacity, cogeneration power plant and others.

Net cash used in financing activities for the year ended March 31, 2005 was HK\$183.9 million. The cash used was primarily for the repayment of bank borrowings in the amount HK\$578.8 million, repurchase of share capital in the amount of HK\$149.4 million and a payment of dividend in the amount of HK\$92.7 million and, which were partly offset by amounts received from issuance of share capital in the amount of HK\$326.7 million and new bank borrowings in the amount of HK\$299.5 million.

Cash flow for the year ended March 31, 2004

Net cash generated from operating activities for the year ended March 31, 2004 was HK\$18.7 million, while operating cash flows before changes in working capital were HK\$479.2 million. The difference of HK\$460.5 million was primarily due to an increase of HK\$327.2 million in inventories (of which HK\$201.4 million was spent on stockpiling yarn in anticipation of a yarn price increase), an increase of HK\$129.2 million in trade and bills receivables and payment of Hong Kong profits tax of HK\$173.5 million due to the finalization of a profits tax payment for the year of assessment 2001/02 to 2003/04, which was partially offset by an increase of HK\$173.1 million in trade creditors and bills payables.

Net cash used in investing activities for the year ended March 31, 2004 was HK\$290.2 million. The cash outflows related primarily to the purchase of properties, plant and equipment in the amount of HK\$285.6 million, which included the purchase of plant and machinery, the construction of production facilities for increased capacity, cogeneration power plant, water treatment plant and others.

Net cash generated from financing activities for the year ended March 31, 2004 was HK\$239.3 million. Net cash from financing activities was generated entirely from new bank borrowings in the amount of HK\$472.4 million, which was partly offset by the repayment of bank borrowings in the amount HK\$231.0 million.

FINANCIAL INFORMATION

Inventories, Receivables and Payables

The following table sets forth certain financial ratios for the period indicated:

	As at March 31,			As at November 30,
	2004	2005	2006	2006
Average inventory days ¹	101.5	91.7	87.0	79.9
Average trade and bills receivable days ²	59.1	54.8	54.6	54.4
Average trade and bills payable days ³	61.7	54.7	52.9	45.1

Notes:

1. Calculated as the average of the beginning and ending inventory balances for the period, divided by the cost of sales for the period, multiplied by 365 days, in respect of year periods, and 244 days, in respect of eight-month periods.
2. Calculated as the average of the beginning and ending trade and bills receivables balances for the period, divided by revenue for the period, multiplied by 365 days, in respect of year periods, and 244 days, in respect of eight-month periods.
3. Calculated as the average of the beginning and ending trade and bills payables balances for the period, divided by the cost of sales in the period, multiplied by 365 days, in respect of year periods, and 244 days, in respect of eight-month periods.

The difference in collection time of our trade and bills receivables and the average payment time of our trade and bills payables (in respect of trade and bills payables only) is -2.6 days, 0.1 days, 1.7 days and 9.3 days, for the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2006, respectively.

Inventories

Our inventories decreased from HK\$616.5 million as at March 31, 2004 to HK\$530.7 million as at March 31, 2005, increased to HK\$689.9 million as at March 31, 2006 and to HK\$766.3 million as at November 30, 2006. Our inventories as at March 31, 2004 were higher than the inventories as at March 31, 2005 due to purchase of yarn in light of higher market prices of yarn starting from the last quarter of calendar year 2003 which persisted until the end of calendar year 2004. The increase in the inventories for the year ended March 31, 2006 and the eight months ended November 30, 2006 was due primarily to the overall increase in sales volume.

The average inventory days decreased from 101.5 days in the year ended March 31, 2004 to 91.7 days in the year ended March 31, 2005 primarily due to the reduction of inventories in raw materials when the market price of yarn returned to normal levels. The further decrease of inventory days to 87.0 days in the year ended March 31, 2006 and 79.9 days in the eight months ended November 30, 2006 was due to better inventory controls, such as increased monitoring of supply stock and timely delivery to customers. Provisions or write-offs of inventories will be made upon review of the conditions and net realizable value of individual inventory items.

The following table sets forth our inventory positions as at the balance sheet dates indicated.

	As at March 31,			As at November 30,
	2004	2005	2006	2006
<i>(in thousands of HK dollars unless otherwise indicated)</i>				
Raw materials	451,136	339,792	469,055	517,829
Work in progress	55,898	62,888	88,368	94,742
Finished goods	96,729	95,223	101,520	128,600
Consumables	12,733	32,838	30,957	25,156
Total	616,496	530,741	689,900	766,327

FINANCIAL INFORMATION

Receivables

Our trade and bills receivables increased from HK\$431.7 million as at March 31, 2004 to HK\$446.5 million as at March 31, 2005, increased to HK\$560.2 million as at March 31, 2006 and further increased to HK\$726.8 million as at November 30, 2006. These increases were primarily due to increases in sales volume and higher average selling prices as a result of changing product mix. The average trade and bills receivable days decreased from 59.1 days in the year ended March 31, 2004 to 54.8 days in the year ended March 31, 2005, decreased to 54.6 days in the year ended March 31, 2006 and further decreased to 54.4 days in the eight months ended November 30, 2006. These decreases were primarily due to tighter credit controls over the trade accounts receivables which in return improved collections of receivables from our customers.

Generally, we provide trade credit to the majority of our customers of 30 to 60 days depending on various factors such as financial strength, size of the business and payment history of the customer. All credit terms are subject to our senior management's approval. Our management and responsible sales personnel conduct regular reviews of customers with overdue payments or who have exceeded their credit limit. We pursue collection of delinquent payments through telephone calls, e-mails, in person meetings and demand letters, as deemed necessary. Payments are generally received in US dollars or Hong Kong dollars and payment methods primarily consist of check payments, telegraphic transfers and settlements through letter of credit. Our trade and bills receivables are written down to the recoverable amount upon review of the outstanding balance item by item with reference to ageing and likelihood of collection.

For the years ended March 31, 2005 and 2006, the eight months ended November 30, 2005 and 2006, the Group recognized impairment losses of other receivables amounting to HK\$7.9 million, HK\$6.6 million, HK\$5.1 million and HK\$2.5 million, respectively. The losses were related to the input value-added tax ("VAT") on export sales in the form of domestic transfer within China due to uncertainty in tax regulations as to whether such input VAT could be offset against the output VAT. We did not recognize any loss for the year ended March 31, 2004.

Payables

Our trade and other payables and bills payables as recorded on our balance sheet include both trade payables and bills payable generated from the purchase of raw materials and machinery. However, trade and other payables and bills payables as recorded on our cash flow statement are separated into those relating to the purchase of raw materials and those relating to the purchase of machinery. Those relating to the purchase of raw materials are recorded as operating activities, while those relating to the purchase of machinery are recorded as purchase of properties, plant and equipment under investing activities.

Our trade and bills payables decreased from HK\$361.7 million as at March 31, 2004 to HK\$322.3 million as at March 31, 2005, increased to HK\$419.3 million as at March 31, 2006 and then decreased to HK\$402.6 million as at November 30, 2006. The reduction of purchases of yarn due to restoration of normal market prices around the end of calendar year 2004 resulted in the reduction of trade and bills payables as at March 31, 2005. The increase of trade and bills payables as at March 31, 2006 was primarily due to increases in purchases of raw materials driven by increased sales volumes.

The average trade and bills payables days decreased from 61.7 days in the year ended March 31, 2004 to 54.7 days in the year ended March 31, 2005, decreased to 52.9 days in the year ended March 31, 2006 and further decreased to 45.1 days in the eight months ended November 30, 2006. These decreases were primarily due to increased purchases from suppliers with shorter payment terms.

Our raw material suppliers generally offer our Group between 30 to 60 days of trade credit although our machinery suppliers generally request letters of credit at sight due to high demand with few providers. Approximately 25% of our purchases have credit terms longer than 60 days. There are no current disputes between the Group and any of its suppliers.

FINANCIAL INFORMATION

Provisions for garment claims of customers, included in accruals and other payables amounting to HK\$3.0 million, HK\$1.1 million, HK\$0.7 million and HK\$10.5 million for the years ended March 31, 2004, 2005, 2006 and the eight months ended November 30, 2006, respectively, have been charged to the distribution and selling expenses in the consolidated income statements. With the exception of provisions in the amount of HK\$0.5 million for the eight months ended November 30, 2006, all provisions have been settled.

Current Assets, Current Liabilities and Net Current Assets

The table below sets out our current assets, current liabilities and net current assets at the balance sheet dates indicated:

	As at March 31,			As at November 30,
	2004	2005	2006	2006
	(in thousands of HK dollars unless otherwise indicated)			
Current assets				
Inventories	616,496	530,741	689,900	766,327
Amount due from shareholders	35,020	—	—	—
Trade and bills receivables	431,721	446,495	560,215	726,802
Deposits, prepayments and other receivables	34,652	37,189	16,813	23,562
Derivative financial instruments	—	—	470	1,532
Cash and bank balances	76,904	215,818	131,038	135,857
	1,194,793	1,230,243	1,398,436	1,654,080
Current liabilities				
Trade and bills payables	361,740	322,302	419,279	402,551
Accruals and other payables	34,678	50,791	92,076	163,719
Borrowings	272,639	86,664	247,874	358,205
Finance lease obligations	62	143	267	825
Derivative financial instruments	—	—	489	2,039
Amount due to a shareholder	—	3,120	—	—
Amount due to a minority shareholder	—	7,594	—	—
Current income tax liabilities	5,196	8,786	37,529	68,726
	674,315	479,400	797,514	996,065
Net current assets	520,478	750,843	600,922	658,015

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings

The table below sets out our borrowings of loans and overdrafts as at the dates indicated:

	As at March 31,		As at		As at
	2004	2005	2006	November 30,	March 31, ²
	(in thousands of HK		dollars unless		otherwise indicated)
Non-current					
Long-term bank loans — secured	—	52,402	33,402	39,196	31,800
Long-term bank loans — unsecured	50,000	25,000	546,000	722,280	606,840
Loan from a minority shareholder ¹	—	29,046	11,496	11,496	30,443
	50,000	106,448	590,898	772,972	669,083
Less: current portion of long term bank loans	(25,000)	(25,000)	(121,212)	(252,159)	(253,712)
	25,000	81,448	469,686	520,813	415,371
Current					
Current portion of long-term bank loans					
— secured	—	—	—	19,719	19,712
Current portion of long-term bank loans					
— unsecured	25,000	25,000	121,212	232,440	234,000
Short-term bank loans — secured	—	42,500	59,235	56,016	65,607
Short-term bank loans — unsecured	247,639	—	30,000	20,000	155,000
Bank overdrafts — secured	—	17,216	10,504	21,790	11,662
Bank overdrafts — unsecured	—	1,948	26,923	8,240	28,049
	272,639	86,664	247,874	358,205	514,030
Total borrowings	297,639	168,112	717,560	879,018	929,401

Note:

1. Loan from Linea Clothing (Private) Limited, 48% minority shareholder of Textured Jersey Lanka (Private) Limited, is unsecured, interest-free and has no fixed repayment terms.
2. The figures stated in this column are unaudited.

The table below sets out our borrowings of bank loans and overdrafts as at the dates indicated, by maturity date:

	As at March 31,		As at		As at
	2004	2005	2006	November 30,	March 31, ¹
	(in thousands of HK		dollars unless		otherwise indicated)
Borrowings are repayable as follows:					
Current	272,639	86,664	247,874	358,205	514,030
Non-current	25,000	81,448	469,686	520,813	415,371
Total	297,639	168,112	717,560	879,018	929,401

Note:

1. The figures stated in this column are unaudited.

As at March 31, 2007, borrowings in the amount of HK\$109.1 million were secured by our assets. The table below sets out the carrying amount of the pledged assets as at the dates indicated:

	As at March 31,		As at		As at
	2004	2005	2006	November 30,	March 31, ¹
	(in thousands of HK		dollars unless		otherwise indicated)
Property, plant and equipment	—	93,750	97,591	96,363	96,849
Inventories	—	70,200	70,200	78,000	78,000
	—	163,950	167,791	174,363	174,849

Note:

1. The figures stated in this column are unaudited.

FINANCIAL INFORMATION

We are party to a syndicated loan agreement entered into on March 15, 2006 with a number of financial institutions pursuant to which such financial institutions have provided to us a term loan facility of HK\$780.0 million. As at the Latest Practicable Date, the principal amount outstanding under this loan facility was HK\$606.8 million. This amount will be fully repaid from IPO proceeds. The loan agreement contains various financial and other covenants, including a minimum consolidated tangible net worth test. The agreement also contains change of control provisions which require that Mr. Tsang Kang Po, Mr. Wan Wai Loi, Mr. Lam Wing Tak, Dr. Lam King Man and Mr. Ip Ping Im collectively do not cease to hold at least 51% of all the issued share capital of and the voting rights in Pacific Textiles Holdings Limited and that each of Mr. Tsang Kang Po, Mr. Wan Wai Loi, Mr. Lam Wing Tak and Dr. Lam King Man continues to be a member of the Board of Directors of the Company. Interest is payable on amounts drawn under the term loan at the rate of HIBOR + 62bps per annum and the principal amount is repayable in eleven unequal installments, with the final amount payable in March 2009.

Certain of our other bank facilities also contain similar restrictive covenants. As at the Latest Practicable Date, we have satisfied all and have not breached any of these covenants. Proceeds from the bank loans were used for capital expenditure, working capital and operating expenses.

Citicorp International Limited, Citi and Citibank, N.A., Hong Kong Branch are the agent, one of the arrangers and one of the lenders, respectively, of the above-mentioned term loan facility of HK\$780.0 million. Also, Citicorp International Limited, Citi and Citibank N.A., Hong Kong Branch will be the agent, the lead arranger and one of the lenders, respectively, of the new syndicated loan to be used to fund a special dividend declared on April 26, 2007. Citi and its associates have ongoing commercial banking relationships with the Company. Save for the foregoing, Citi and its associates have no other business relationship with us and Citi considers that its independence as one of the Joint Sponsors will be not affected by these loan transactions.

Contingent Liabilities

As at March 31, 2004, 2005 and 2006 and November 30, 2006, we had no material contingent liabilities.

Other Liabilities

Except as disclosed above and other than intra-group liabilities, which have been disregarded for these purposes, the Company did not have any outstanding loan capital, bank overdrafts, liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities outstanding as at November 30, 2006.

CAPITAL COMMITMENTS

The following table presents our capital expenditure commitments in respect of acquisition of property, plant and equipment contracted for but not provided as at the dates indicated:

	As at March 31,			As at November 30,
	2004	2005	2006	2006
	(in thousands of HK dollars unless otherwise indicated)			
Capital commitments				
— property, plant and equipment contracted but not provided for	44,421	48,620	69,317	75,359

The Directors confirm that there have been no material changes in our capital commitments since the Latest Practicable Date.

The following table presents our commitments for future aggregate minimum lease payments under non-cancellable operating leases for land and building as at the dates indicated:

	As at March 31,			As at November 30,
	2004	2005	2006	2006
	(in thousands of HK dollars unless otherwise indicated)			
Not later than 1 year	99	1,076	265	797
Later than 1 year and not later than 5 years . .	28	177	—	1,072
	127	1,253	265	1,869

FINANCIAL INFORMATION

CAPITAL ADEQUACY RATIOS

The following table sets forth certain capital adequacy ratios for the period indicated:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2006	
Gearing ¹	16.4%	8.1%	30.5%	31.3%	
Debt to equity ²	19.8%	-3.1%	54.0%	57.3%	

Notes:

1. Calculated as the total debts for the period, divided by total assets for the period x 100%. Debts are defined to include current and non-current borrowings.
2. Calculated as the net debts for the period, divided by the equity for the period x 100%. Net debts are defined to include all borrowings net of cash and cash equivalents. Equity is defined to include the minority interests.

Our gearing ratio decreased from 16.4% in the year ended March 31, 2004 to 8.1% in the year ended March 31, 2005, increased to 30.5% in the year ended March 31, 2006 and further increased to 31.3% in the eight months ended November 30, 2006. The decrease in the year ended March 31, 2005 was primarily due to the increase in cash resulting from an increase in net cash generated from operating activities and improvement in working capital management. The increase in the year ended March 31, 2006 and the eight months ended November 30, 2006 was due to the drawdown of a syndicated loan in March 2006.

Our debt to equity ratio decreased from 19.8% in the year ended March 31, 2004 to -3.1% in the year ended March 31, 2005, increased to 54.0% in the year ended March 31, 2006 and further increased to 57.3% in the eight months ended November 30, 2006. The decrease to -3.1% in the year ended March 31, 2005 was primarily due to the increase in cash resulting from an increase in net cash generated from operating activities and improvement in working capital management. The increase in the year ended March 31, 2006 and the eight months ended November 30, 2006 was due to the drawdown of a syndicated loan in March 2006.

CAPITAL EXPENDITURES

Our capital expenditures comprise purchases of property, plant and equipment. The following table shows our capital expenditures, based on where the companies within the Group are located, for the periods indicated:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
(in thousands of HK dollars unless otherwise indicated)					
China	258,605	220,337	234,841	160,482	292,353
Hong Kong	27,072	2,096	1,422	536	3,886
Sri Lanka	—	128,425	36,184	28,016	5,436
Others	104	40	163	17	243
Total	<u>285,781</u>	<u>350,898</u>	<u>272,610</u>	<u>189,051</u>	<u>301,918</u>

The Group estimates that capital expenditures for the year ended March 31, 2007 will be approximately HK\$431 million. The Group's planned future capital expenditures mainly include the purchase of additional production facilities and machinery and investments in information technology systems. The Group expects to fund these expansion plans with cash flow from its operations and the net proceeds from the Global Offering.

FINANCIAL INFORMATION

The actual amounts of expenditures incurred may vary from the estimated amounts of expenditures for a variety of reasons, including changes in market conditions and other factors. Our ability to obtain additional funding required for increased capital expenditure in the future is subject to a variety of uncertainties including the future results of our operations, financial condition and cash flows, and economic and political and other conditions in the PRC. Please see “Risk Factors — Our future expansion plans are subject to risks and uncertainties, and may be difficult or expensive to manage”.

PROPERTY INTEREST

Vigers Appraisal & Consulting Limited, an independent property valuer, has valued our property interests, including land use rights, as at February 28, 2007 at approximately HK\$450.5 million. The text of its letter, summary of valuation and valuation certificates are set out in Appendix IV to this prospectus.

A reconciliation of the net book value of the relevant property interests, including land use rights, as at November 30, 2006 to their fair value as at February 28, 2007 as stated in Appendix IV to this prospectus is as follows:

	<u>In thousands of HK Dollars</u>
Net book values as at November 30, 2006 included in the Accountants’ Report set out in Appendix I to this prospectus	
Leasehold properties	315,954
Leasehold land and land use rights	21,934
	337,888
Movements for the three months ended February 28, 2007	
Additions (unaudited)	16,487
Transfers from construction-in-progress (unaudited)	248
Depreciation on leasehold properties (unaudited)	(3,643)
Amortization on leasehold land and land use rights (unaudited)	(135)
Currency translation differences (unaudited)	4,795
	355,640
Valuation surplus	94,892
Valuation as at February 28, 2007 as per Appendix IV to this prospectus	450,532

CONTRACTUAL OBLIGATIONS

The following table sets forth the scheduled maturities of the Group’s material contractual obligations as at November 30, 2006.

	Payments due as at November 30, 2006		
	Current	Non-current	Total
	(in thousands of HK dollars unless otherwise indicated)		
Material Contractual Obligations			
Capital expenditure	66,171	9,188	75,359
Bank loans	358,205	520,813	879,018
Operating lease obligations	797	1,072	1,869
	425,173	531,073	956,246

For more details, please see note(s) in Section II of Appendix I to this Prospectus.

FINANCIAL INFORMATION

OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our Shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

FINANCIAL INDEPENDENCE

As at the Latest Practicable Date, the Group had no non-trade balances due to Directors, no non-trade balances due from Directors and no non-trade balances due from related parties.

CRITICAL ACCOUNTING POLICIES

We have identified below the accounting policies that we believe are the most critical to our consolidated financial statements. These accounting policies require the most difficult, subjective or complex judgments of the management of our Group, often as a result of the need to make estimates about the effect of matters which are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to our Group's financial statements. Estimates and judgments 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) Useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives and it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(b) Impairment of property, plant and equipment, leasehold land and land use rights

Property, plant and equipment, leasehold land and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including

FINANCIAL INFORMATION

the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

(c) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(d) Trade, bills and other receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgments and estimates. Management reassesses the provision at each balance sheet date.

(e) Income taxes

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates have been changed.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various market risks, including fluctuations in commodities prices, foreign exchange rates and inflation in the normal course of business. We manage our exposure to these and other market risks through regular operating and financial activities. We use financial instruments such as derivatives to hedge anticipated exposure but not for speculation. We do not have any derivative financial instruments outstanding except for the forward contracts to hedge against foreign currency fluctuations. We do not currently use any derivative instruments to manage our interest rate, or commodity price risks, but we may enter into such instruments if our Directors determine that it is in our best interest to do so.

Commodities Price Risk

We are exposed to fluctuations in the prices of the raw materials that we require for the production of our products. These raw materials consist principally of yarn, dye and other chemicals. We sell our products and purchase our raw materials at market prices. Therefore, fluctuations in both the prices of our products and our raw materials can have a significant effect on our results of operations.

FINANCIAL INFORMATION

Foreign Exchange Rate Risk

We receive a significant proportion of our revenue in US dollars and Hong Kong dollars, while substantially all of our operating expenses are denominated in Renminbi. Our reporting currency is Hong Kong dollars, which are pegged to US dollars.

In the event of currency fluctuations, we may have to increase our product pricing to compensate for the increase in cost of production. This would decrease our market competitiveness, on a price basis, for our products and could result in a decrease in our revenue.

We have entered into forward contracts to hedge against currency fluctuations of the US dollar and Euro, the majority of which are US dollar forward contracts. As at March 31, 2007, the total outstanding US dollar forward contracts are in the amount of approximately US\$104 million at an average exchange rate of HK\$7.72 to US\$1.00 with maturities ranging from one month to 12 months. Our hedging activities are targeted to cover our projected exposure. While we will continue to evaluate hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure.

Further, an appreciation in the Renminbi against other currencies will make products produced in China for export more expensive and therefore adversely affect China's level of international trade and our business as a consequence. Please see "Risk Factors — Fluctuation of the Renminbi could materially affect our financial condition and results of operations".

Interest Rate Risk

Our interest rate risk relates primarily to bank borrowings bearing interest at floating rates ranging from HIBOR + 1% to HIBOR + 4% with maturity dates ranging from one to three years. Increases in interest rates will increase the cost of new borrowings and the interest expense with respect to outstanding floating rate borrowings, and therefore any increase in interest rates could have a material adverse effect on our financial position. As of November 30, 2006, we had total outstanding borrowings of HK\$879 million bearing floating rates and with maturities from 2006 to 2009. The proceeds of the bank loans were used for our working capital, capital expenditures and operating expenses.

Inflation

According to the National Statistical Bureau, China's overall national inflation rate, as represented by the general consumer price index, was approximately 1.2% in calendar year 2003, 3.9% in calendar year 2004 and 1.8% in calendar year 2005. Inflation and deflation have not had a significant impact on our results of operations in recent years.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since November 30, 2006 (being the date to which our latest consolidated financial results were prepared as set out in the Accountants' Report in Appendix I to this prospectus).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROFIT ESTIMATE

The Directors estimate that, in the absence of unforeseeable circumstances and on the bases set out in Appendix III, the estimate of the Group's estimated consolidated profit attributable to the shareholders of the Company for the year ended March 31, 2007 will not be less than HK\$552 million.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of the Company as at November 30, 2006 as if the Global Offering had taken place on November 30, 2006 assuming the over-allotment is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at November 30, 2006 or at any future dates following the Global Offering.

	Audited net tangible assets of the Group attributable to the equity holders of the Company as at November 30, 2006 ¹	Estimated net proceeds from the Global Offering ²	Unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company ³	Unaudited pro forma adjusted net tangible assets per share ⁴
	HK\$'000	HK\$'000	HK\$'000	HK\$
Based on an Offer Price of HK\$4.15 per share	1,251,708	1,386,063	2,637,771	1.84
Based on an Offer Price of HK\$5.50 per share	1,251,708	1,855,170	3,106,878	2.17

Notes:

1. The audited consolidated net tangible assets attributable to the equity holders of the Company as at November 30, 2006 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at November 30, 2006.
2. The estimated net proceeds from the Global Offering are based on the indicative Offer price of HK\$4.15 and HK\$5.50 per Share after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any shares which may fall to be issued upon the exercise of the Over-allotment Option.
3. The unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company does not take into account the dividend of approximately HK\$780 million declared by the Company on April 26, 2007, payable to our existing shareholders on May 17, 2007.
4. The unaudited pro forma adjusted net tangible assets per Shares is arrived at after the adjustments referred to in Note 2 above and on the basis that 1,432,936,000 Shares were in issue assuming that the Global Offering has been completed on November 30, 2006 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the issuing mandate and the Repurchase Mandate.
5. As at February 28, 2007, the Group's land use rights and buildings interests were revalued by Vigers Appraisal & Consulting Limited, an independent property valuer, and the relevant property valuation report is set out in "Appendix IV — Property Valuation". The net revaluation surplus, representing the excess of market value of the land use rights and buildings over their book value, is approximately HK\$94,892,000. Such revaluation surplus has not been included in the Group's consolidated financial information as at November 30, 2006 and will not be included in the Group's accounts for the year ended March 31, 2007. The above adjustment does not take into account the above revaluation surplus. Had the land use rights and buildings been stated at such valuation, an additional depreciation of HK\$3,411,600 per annum would be charged against the consolidated income statement for the year ended March 31, 2007.
6. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to November 30, 2006.

WORKING CAPITAL

Taking into account the financial resources available to the Group, including internally generated funds, the available banking facilities and the estimated net proceeds from the Global Offering, the Directors are of the opinion that the Group has sufficient working capital for at least the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

After completion of the Global Offering, our shareholders will be entitled to receive dividends declared by us. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant.

Final dividends, if any, on the outstanding Shares must be recommended by our Board and approved at our annual general meeting of shareholders. In addition, the Board may declare special and interim dividends. The payment and the amount of any dividends declared will be subject to our Memorandum and Articles of Association and the Cayman Islands Companies Law. We are entitled under our Memorandum and Articles of Association and the Cayman Islands Companies Law to pay dividends out of profits and reserves, including share premium, provided that on the date the proposed dividend is to be paid, we are able to pay our debts when they fall due in the ordinary course of business.

Subject to the above-mentioned, from our fiscal year ending March 31, 2008, our Directors currently intend to declare a cash dividend in an amount equivalent to approximately 30% of the consolidated profit attributable to equity holders of our Company for each fiscal year.

Our total reserves as at November 30, 2006 were HK\$189 million. In April 2007, the Company accounted for dividends declared by its subsidiaries in the amount of approximately HK\$611 million. Accordingly, we had total reserves for distribution in the amount of approximately HK\$800 million. On April 26, 2007, we declared a special dividend in the amount of approximately HK\$780 million to our existing shareholders which will be financed by means of a new bank loan of HK\$600 million with a maturity of three years and at an interest rate of HIBOR + 49bps, and the balance funded from our internal resources. The new bank loan will be drawn-down no later than one business day prior to the Listing Date and the loan proceeds will be paid directly to the recipients of the dividend. Approximately HK\$762 million of the net proceeds from the Global Offering is expected to be used for the repayment of an existing syndicated loan and other bank loans. Please see “Use of Proceeds”.

The timing, amount and form of future dividends, if any, will depend, among other things, on:

- the Group’s results of operations and cash flows;
- the Group’s future prospects;
- general business conditions;
- the Group’s capital requirements and surplus;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by subsidiaries to the Company;
- taxation considerations;
- possible effects on the Company’s creditworthiness;
- statutory and regulatory restrictions; and
- any other factors the Board may deem relevant.

Our ability to pay cash dividends will also depend upon the amount of distributions, if any, received by us from our operating subsidiaries. Under PRC law, dividends may be paid only out of distributable profits, which are the retained earnings of the relevant companies organized in the PRC. We will not ordinarily pay any dividends in a year in which we do not have any distributable earnings.

We can give no assurance that any dividends will be paid. You should consider the risk factors affecting the Group contained in “Risk Factors” and the cautionary notice regarding forward-looking statements contained in “Forward-looking Statements”.

FUTURE PLANS AND PROSPECTS

We are a leading manufacturer of customized knitted fabrics with a focus on complex, value-added fabrics. We have built a reputation for product quality, customer service and innovation. We aim to maintain and further strengthen our market leadership in knitted fabric manufacturing by sustaining growth in revenue and profitability through expansion of our facilities and production capacity, maintaining our focus on value-added fabrics that command higher average selling prices, and entering into potential attractive joint ventures to expand our current market share or into new market segments.

In order to achieve our strategic objectives, we currently intend to implement the future plans described below.

Expansion of our Panyu and Sri Lanka facilities

Presently, we are operating at close to full capacity and expanding our production capacity is critical to sustaining our growth objectives. We have planned for significant capital investments for the expansion of our principal production facility located in Panyu, China to maintain our competitive position and to take advantage of the PRC's strong foothold in the knitted fabric industry. We have also planned to expand our Sri Lanka facility to increase its production output.

We are engaged in significant expansion projects at both our Panyu and Sri Lanka facilities. At the end of March 2007, we completed the project of expanding the capacity of our cogeneration power plant with the addition of another steam turbine and are currently engaged in the handover completion process. The expansion project enables us to increase our energy capacity from 26 megawatts to 41 megawatts. The principal elements of our current expansion plan at our facility in Panyu, China include the following:

- expanding the site through acquisition of adjacent land for which we will construct new buildings and install new equipment;
- constructing a new water recycling plant, which is expected to be completed in the second quarter of 2007;
- constructing an automated warehouse, which is expected to lower ongoing logistics costs, improve distribution efficiencies and reduce labor requirements;
- acquiring additional equipment to optimize production to satisfy expansion needs; and
- upgrading current information technology systems, such as our enterprise resources planning system, to enhance labor productivity.

At our production facility in Avissawella, Sri Lanka, we expect expansion to be driven by the expansion of the wastewater treatment system, the current limiting step in the production cycle. We have received approval from the BOI and plan to increase treatment of discharged wastewater by approximately 75% over the November 30, 2006 level by November 2007. In addition, we received approval from the BOI for the lease of two additional parcels of land with a total area of approximately 49,100 square meters to be used for future expansion of our operations.

We also intend to selectively upgrade our equipment and technology on an ongoing basis. We seek to identify equipment specific to our production needs that will enhance our production efficiency, adjust for future changes in product mix, improve turnaround time and reduce per unit labor and energy costs. We also seek to install equipment, such as fabric printers, to increase our production of more complex and value-added fabrics.

FUTURE PLANS AND PROSPECTS

Manufacture higher average selling price, value-added fabrics

We expect to continue our focus on manufacturing customized fabrics which generally command higher average selling prices. Our research and development continue to center on developing and introducing new types of value-added fabrics and services, such as our in-house design service.

Attractive joint ventures

We will continue to evaluate attractive growth opportunities to expand the breadth of our business and enter into different fabric market segments such as our joint ventures, SPM Automotive and Fillattice-Pacific.

USE OF PROCEEDS

Based on an Offer Price of HK\$4.83 per Share (being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus), we estimate that the net proceeds from the Global Offering (after deducting the underwriting commissions and other estimated offering expenses payable by us) will be approximately HK\$1,622 million (equivalent to approximately US\$208 million), assuming that the Over-allotment Option is not exercised. We intend to use these net proceeds for the following purposes:

- approximately HK\$762 million (equivalent to approximately US\$98 million) (approximately 47% of the net proceeds from the Global Offering) is expected to be used for the repayment of an existing syndicated loan and other bank loans which were used for working capital and other operational purposes, particulars of which are set forth below:

<u>Bank</u>	<u>Due date</u>	<u>Interest rate</u> (%)	<u>Amount</u> (HK\$ million)
Citicorp International Limited	March 15, 2009	HIBOR+62bps	607
Hang Seng Bank Limited	May 23, 2007	HIBOR+45bps	50
The Hong Kong Shanghai Banking Corporation Limited	May 23, 2007	HIBOR+50bps	50
BNP Paribas, Hong Kong Branch	May 23, 2007	Cost of funds+40bps	35
The Standard Chartered (Hong Kong) Bank	May 23, 2007	HIBOR+50bps	20
			762

- approximately HK\$700 million (equivalent to approximately US\$90 million) (approximately 43% of the net proceeds from the Global Offering) is expected to be used primarily to fund capital expenditures for the expansion and upgrade of our facilities and operations; and
- the balance of approximately HK\$160 million (equivalent to approximately US\$21 million) (approximately 10% of the net proceeds from the Global Offering) will be used to fund our general working capital.

To the extent that the net proceeds of the Global Offering derived from unused capital are not immediately applied to the above purposes, we intend to deposit the proceeds in interest-bearing bank accounts, such as short-term savings accounts or basic short-term money market funds, with licensed commercial banks and/or authorized financial institutions in Hong Kong. We will also disclose the same in the relevant annual report of the Company. We will draw down a new bank loan of HK\$600 million no later than one business day prior to the Listing Date to partly fund the payment of a special dividend declared on April 26, 2007. Please see “Financial Information — Dividend Policy and Distributable Reserves”.

In the event that the Over-allotment Option is exercised in full, based on the mid-point of the indicative Offer Price stated above, we estimate that the net proceeds from the sale of these additional Offer Shares (after deducting underwriting commissions and other estimated offering expenses paid and payable by us) will be approximately HK\$252 million. We intend to use these net proceeds to fund additional capital expenditures.

In the event that the Offer Price is set at the high end of the proposed Offer Price range set forth on the cover page of this prospectus and assuming the Over-allotment Option is not exercised at all, our Company will receive net proceeds of approximately HK\$1,855 million. The additional net proceeds of approximately HK\$233 million are intended to be used to fund additional capital expenditures. In the event that the Offer Price is set at the high end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive net proceeds of approximately HK\$2,142 million and the additional net proceeds of approximately HK\$287 million arising from the exercise of the Over-allotment Option are intended to be used to fund additional capital expenditures.

In the event that the Offer Price is set at the low end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, our Company will receive net proceeds of approximately HK\$1,386 million. In this event, proceeds of approximately HK\$762 million will be used for the repayment of an existing syndicated loan and banking facilities with remaining proceeds to be used for capital expenditures and none will be applied towards working capital. In the event that the Offer Price is set at the low end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive net proceeds of approximately HK\$1,602 million. In this event, the amount used to fund general working capital will be reduced to approximately HK\$140 million.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

Citigroup Global Markets Asia Limited
Morgan Stanley Dean Witter Asia Limited
DBS Asia Capital Limited
First Shanghai Securities Limited

INTERNATIONAL UNDERWRITERS

Citigroup Global Markets Limited
Morgan Stanley & Co. International plc
DBS Asia Capital Limited
First Shanghai Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

We are offering the Public Offer Shares for subscription on, and subject to, the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting the listing of, and permission to deal in, the Shares to be offered pursuant to the Global Offering as mentioned herein and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed severally and not jointly to purchase or procure subscribers for the Public Offer Shares which are being offered but are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
 - (i) any new law or regulation or any change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the Cayman Islands, the United States and the United Kingdom (each a “Relevant Jurisdiction”); or
 - (ii) any change or development involving a prospective change or development, or any event or series of events resulting in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong dollar is linked to that of the currency of the United States or an appreciation of the Renminbi against the currency

UNDERWRITING

of any of the United States, the European Union, the United Kingdom or Japan) in or affecting any Relevant Jurisdiction; or

- (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, epidemic, outbreak of an infectious disease, civil commotion, acts of war, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is declared), acts of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency or war, riot, public disorder, economic sanctions or acts of God) in or affecting any Relevant Jurisdiction; or
- (iv) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange or the London Stock Exchange or (B) a general moratorium on commercial banking activities in New York, London, Cayman Islands, Hong Kong or the PRC declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or
- (v) any material adverse change or development or prospective material adverse change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction materially adversely affecting an investment in the Shares; or
- (vi) a material contravention by any member of the Group of a material provision of the Companies Ordinance or the Cayman Islands Companies Law or the Listing Rules; or
- (vii) any material adverse change or development involving a reasonably likely material adverse change of any of the risks set out in the section headed “Risk Factors” in this prospectus;

and which, in any such case and in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters),

- (A) is or will be or is reasonably likely to be materially adverse to, or materially and prejudicially affect, the general affairs or the business or financial or trading or other condition or prospects of the Company and its subsidiaries taken as a whole; or
 - (B) has or will have or is reasonably likely to have a material adverse effect on the success of the Global Offering and/or make it impracticable, inexpedient or inadvisable for any part of the Public Offer Underwriting Agreement, the Public Offer or the Global Offering to be performed or implemented as envisaged; or
 - (C) makes it impracticable, inexpedient or inadvisable to proceed with or to market the Public Offer and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (b) there has come to the notice of the Joint Global Coordinators or any of the Public Offer Underwriters:
- (i) that any statement contained in this prospectus, the Application Forms, the formal notice and any announcements in the agreed form issued by the Company in connection with the Public Offer (including any supplement or amendment thereto) was or has become untrue, incorrect or misleading in any material respect in the context of the Global Offering; or
 - (ii) any matter has arisen or has been discovered which would or might, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or

UNDERWRITING

- (iii) any of the representations, warranties and undertakings given by the Company in the Public Offer Underwriting Agreement is (or would when repeated be) being untrue or misleading or inaccurate in any material respect; or
- (iv) any event, act or omission which gives or is likely to give rise to any material liability of the Company pursuant to the indemnities given by the Company under the Public Offer Underwriting Agreement; or
- (v) any material breach of any of the material obligations of the Company under the Public Offer Underwriting Agreement; or
- (vi) any material adverse change or reasonably likely material adverse change in the assets, liabilities, conditions, profits, losses, business, properties, results of operations, in the financial or trading position or prospects or performance of the Company and its subsidiaries taken as a whole; or
- (vii) any material litigation or claim being threatened or instigated against the Company or any of its subsidiaries; or
- (viii) any of PricewaterhouseCoopers as the reporting accountants, Vigers Appraisal & Consulting Limited as the property valuer in relation to the Global Offering, Maples & Calder as the legal advisers of the Company on Cayman Islands law and British Virgin Islands law and King & Wood as the legal advisers of the Company on PRC law has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (ix) the Company withdraws this prospectus and the Application Forms or the Global Offering;

then the Joint Global Coordinators may, in their sole discretion and upon giving notice to the Company, terminate the Public Offer Underwriting Agreement with immediate effect.

Undertakings

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances which includes the issue of Shares pursuant to the Capitalization Issue and the Share Option Scheme.

Pursuant to the Public Offer Underwriting Agreement, we have undertaken to the Joint Global Coordinators and the Public Offer Underwriters that, except pursuant to the Global Offering (including pursuant to exercise of the Over-allotment Option) or any share option scheme of any member of our Group, at any time after the date of the Public Offer Underwriting Agreement up to and including the date falling six months from the Listing Date, and unless permitted by the Stock Exchange, we will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Public Offer Underwriters), (a) offer, pledge, charge, mortgage, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any Shares or other securities of the Company or any interests therein (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such Shares or other securities or any interest therein (the “Held Interests”), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incident of ownership of

UNDERWRITING

any such Held Interests; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a), (b) or (c) above; whether any such transaction described in (a), (b) or (c) above is to be settled by delivery of such Held Interests, in cash or otherwise. Similar undertakings are expected to be given to the International Underwriters by the Company under the International Underwriting Agreement.

Deed of lock-up

All existing shareholders of the Company (together the “Covenantors”) entered into a deed of lock-up in favor of the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters), and Citigroup Global Markets Limited and Morgan Stanley & Co. International plc (together the “Representatives”) (for themselves and on behalf of the other International Underwriters) on May 4, 2007, pursuant to which each of the Covenantors severally undertakes to each of the Joint Global Coordinators, the Representatives and the other Underwriters that, save as pursuant to the Stock Borrowing Agreement, from the date of this deed of lock-up up to and including the date falling six months from the Listing Date, it will not without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Representatives and other Underwriters), (i) offer, pledge, charge, allot, sell, contract to allot, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the share capital of the Company or any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital; (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the share capital of the Company; or (iii) offer or agree to enter into any transaction with the same economic effect described in limb (i) or (ii) above, whether any of the foregoing transactions described in limb (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise.

Commission and expenses

The Public Offer Underwriters will receive a commission of 3% of the aggregate Offer Price payable for the Public Offer Shares initially offered under the Public Offer, out of which they will pay any sub-underwriting commissions. For unsubscribed Public Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters and not the Public Offer Underwriters. Our Company may also in its sole discretion pay either or both of the Joint Global Coordinators an additional incentive fee of up to 0.5% in the aggregate of the sale proceeds of the Global Offering if it is satisfied with the services provided by the Joint Global Coordinators prior to Listing in connection with the Global Offering, the payment and amount of which will be determined within 15 days of the Listing Date.

Underwriters' interest in our Group

Save for their respective obligations under the Public Offer Underwriting Agreement and the International Underwriting Agreement and the Stock Borrowing Agreement, none of the Underwriters has any shareholding interests in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

UNDERWRITING

International Placing

International Underwriting Agreement

In connection with the International Placing, we, the International Underwriters and the Joint Global Coordinators expect to enter into the International Underwriting Agreement. Under the International Underwriting Agreement, the International Underwriters to be named therein would severally agree to purchase the International Placing Shares or procure purchasers for the International Placing Shares.

Under the International Underwriting Agreement, our Company has granted to the International Underwriters the Over-allotment Option, exercisable by Citi on behalf of the International Underwriters (at the discretion of the Joint Global Coordinators), in whole or in part at one or more times, for up to 30 days after the last day for lodging applications under the Public Offer, to require our Company to sell up to an aggregate of 53,735,000 additional Shares, representing in aggregate approximately 15% of the Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price and will be for the purpose of, among other things, covering over-allocations in the International Placing, if any.

TOTAL EXPENSES

Assuming an Offer Price of HK\$4.83 per Share (being the mid-point of the stated offer price range of HK\$4.15 to HK\$5.50 per Share), the aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy of 0.004%, Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount to approximately HK\$108 million (assuming the Over-allotment Option is not exercised). Such commissions, fees and expenses are payable by the Company.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Public Offer as part of the Global Offering. Citi and Morgan Stanley are the Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Joint Sponsors of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Public Offer of 35,824,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “The Public Offer”. The Public Offer Shares include the 3,582,000 Shares initially available for subscription by eligible full-time employees of the Company or any of its subsidiaries, on a preferential basis; and
- the International Placing of 322,410,000 Shares (subject to adjustment as mentioned below) in the United States with QIBs in reliance on Rule 144A or another exemption under the US Securities Act, and outside the United States in reliance on Regulation S.

Investors may apply for the Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the Offer Shares to QIBs in the United States in reliance on Rule 144A or another exemption under the US Securities Act, as well as to institutional and professional investors and other investors and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Placing. Prospective investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Public Offer and the International Placing respectively may be subject to reallocation as described in the section headed “— Pricing and Allocation”.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, May 11, 2007 and in any event, no later than Tuesday, May 15, 2007.

The Offer Price will be not more than HK\$5.50 per Offer Share and is expected to be not less than HK\$4.15 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters and with our consent) consider the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range inappropriate, the Joint Global Coordinators (on behalf of the Underwriters) may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer on Thursday, May 10, 2007, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the

STRUCTURE OF THE GLOBAL OFFERING

indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the Offering statistics as currently set out in the section headed “Summary” and any other financial information which may change as a result of such reduction. Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the last day for lodging applications under the Public Offer, then even if the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus on or before the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Shares to be offered in the Public Offer and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of the Offer Shares pursuant to the International Placing will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the listing of the Offer Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our shareholders as a whole.

Allocation of Shares to investors under the Public Offer will be based on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Although the allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The net proceeds from the Global Offering accruing to us are estimated to be approximately HK\$1,622 million. The estimated net proceeds are calculated assuming an Offer Price of HK\$4.83 per Share (being the midpoint of the stated offer price range of HK\$4.15 to HK\$5.50 per Share) and after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming that the Over-allotment Option is not exercised.

The applicable Offer Price, level of applications in the Public Offer, the level of indications of interest in the International Placing, and the basis of allocations of the Public Offer Shares and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer are expected to be made available in a variety of channels in the manner described in the section headed “How to Apply for Public Offer Shares — IX. Publication of Results; Dispatch/Collection of Share Certificates and Refunds of Application Monies — Publication of results” from Thursday, May 17, 2007.

CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for the Public Offer Shares pursuant to the Public Offer will be conditional on:

- (a) the granting by the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued under the Capitalization Issue and any Shares which may be issued under the Share Option Scheme;

STRUCTURE OF THE GLOBAL OFFERING

- (b) the Offer Price being duly determined;
- (c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (d) the obligations of the Underwriters under each of the Public Offer Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Wednesday, June 6, 2007, being the 30th day after the date of this prospectus.

If for any reason, the Offer Price is not agreed by Tuesday, May 15, 2007 between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “— How to Apply for Public Offer Shares”. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Public Offer and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

THE PUBLIC OFFER

Number of Shares Initially Offered

We are initially offering 35,824,000 Shares at the Offer Price, representing 10% of the 358,234,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Public Offer will represent 2.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Public Offer and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Placing will not be allocated Offer Shares in the International Placing.

Allocation

For allocation purposes only, the Public Offer Shares initially being offered for subscription under the Public Offer less the Public Offer Shares validly subscribed for by applicants under the **pink** Application Forms (as more particularly set out in the paragraph headed “Preferential Offer to Eligible Full-time Employees” below) (after taking into account any adjustment in the number of Offer Shares allocated between the Public Offer and the International Placing) will be divided equally into two pools (subject to adjustment of odd lot size): assuming all the 3,582,000 Shares initially available for subscription by eligible full time employees of the Company or any of its subsidiaries on a preferential basis are validly subscribed for and allocated to applicants under the **pink** Application Forms, Pool A will comprise 16,121,000 Public Offer Shares and Pool B will comprise 16,121,000 Public Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Public Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have

STRUCTURE OF THE GLOBAL OFFERING

been received for Public Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 16,121,000 Public Offer Shares (being 50% of the initial number of Public Offer Shares less the Public Offer Shares initially available for subscription by eligible full-time employees of the Company or any of its subsidiaries on a preferential basis (as more particularly described in “Preferential Offer to Eligible Full-time Employees” in this section)).

Reallocation

The allocation of Shares between the Public Offer and the International Placing is subject to adjustment. If the number of Shares validly applied for in the Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Shares initially available under the Public Offer, the total number of Shares available under the Public Offer will be increased to 107,472,000, 143,294,000 and 179,118,000 Shares, respectively, representing approximately 30% (in the case of (i)), approximately 40% (in the case of (ii)) and approximately 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Shares will be allocated to Pool A and Pool B.

If the Public Offer Shares are not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Public Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deem appropriate.

Applications

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Public Offer to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Placing.

The Offer Price will be not more than HK\$5.50 and is expected to be not less than HK\$4.15. Applicants under the Public Offer are required to pay, on application, the maximum offer price of HK\$5.50 per Share plus 1.0% brokerage fee, 0.004% SFC transaction levy, and 0.005% Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$5.50, being the maximum Offer Price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee attributable to the surplus application

STRUCTURE OF THE GLOBAL OFFERING

monies) to successful applicants, without interest. Further details are set out in “How to Apply for Public Offer Shares”.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer.

PREFERENTIAL OFFER TO ELIGIBLE FULL-TIME EMPLOYEES

Up to 3,582,000 Public Offer Shares, representing approximately 10% of the Offer Shares initially being offered under the Public Offer, approximately 1% of the Offer Shares and approximately 0.25% of the share capital of the Company upon completion of the Global Offering assuming the Over-allotment Option is not exercised, are available for subscription by eligible full-time employees of the Company or any of its subsidiaries, excluding the directors or the chief executive of the Company or any of its subsidiaries, existing beneficial owners of the shares of the Company or any of its subsidiaries and their respective associates, on a preferential basis. In the event of over-subscription on **pink** Application Forms, the 3,582,000 Shares initially available to applicants on **pink** Application Forms will be allocated to such applicants on a fair basis in proportion (as nearly as possible without involving portions of a board lot) to the level of valid applications received from eligible employees, or balloted if there are insufficient Shares available to **pink** Application Form applicants. If balloting is conducted, some eligible full-time employees may be allocated more Shares than others who have applied for the same number of Shares. No favor will be given to the employees who apply for a large number of Shares or any employees who held a senior position within the Group. Applications in excess of the 3,582,000 Shares initially available to applicants on **pink** Application Forms will be rejected. Allocation of Public Offer Shares to applications made on **pink** Application Forms will be based on the allocation guidelines contained in Practice Note 20 to the Listing Rules and, in case any exceptions are noted, an announcement will be made in accordance with Practice Note 20.

In case not all the 3,582,000 Shares are subscribed for by eligible full-time employees of the Company or any of its subsidiaries, the under-subscribed Shares will be available for subscription by the public under the Public Offer.

THE INTERNATIONAL PLACING

Number of Offer Shares Offered

The number of Shares to be initially offered for subscription or sale under the International Placing will be 322,410,000 Shares, representing approximately 90% of the Offer Shares under the Global Offering. The International Placing is subject to the Public Offer being unconditional.

Allocation

Pursuant to the International Placing, the International Underwriters will conditionally place our Shares with QIBs in the United States in reliance on Rule 144A, as well as with institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the “book-building” process described in “Pricing and Allocation” in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our shareholders as a whole.

STRUCTURE OF THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION

We have granted the Over-allotment Option to the International Underwriters, exercisable by Citi on behalf of the International Underwriters (at the discretion of the Joint Global Coordinators) within 30 days from the last day for the lodging of applications under the Public Offer. If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$4.83 (being the mid-point of the Offer Price range of HK\$4.15 and HK\$5.50), the Company would receive additional net proceeds (after deducting commission and expenses attributable to the exercise of the Over-allotment Option) of approximately HK\$252 million. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Joint Global Coordinators will have the right to require us to allot and issue up to an aggregate of 53,735,000 additional Shares representing in aggregate approximately 15% of the initial Offer Shares, at the Offer Price, to cover over-allocations in the International Placing, if any.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allotments in connection with the Global Offering, Citi may choose to borrow, whether on its own or through its Affiliates, up to 53,735,000 Shares from Fifth Element Enterprises Limited pursuant to the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising the Over-allotment Option.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, Citi, as stabilizing manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Public Offer. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on Citi or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of Citi and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 53,735,000 Shares, which is approximately 15% of the Shares initially available under the Global Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

STRUCTURE OF THE GLOBAL OFFERING

Specifically, prospective applicants for and investors in the Shares should note that:

- Citi, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which Citi, or any person acting for it, will maintain such a position;
- liquidation of any such long position by Citi may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on June 8, 2007, being the last business day immediately before the 30th day after the last date for lodging applications under the Public Offer. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to and not more than an aggregate of 53,735,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by Citi on behalf of the International Underwriters (at the discretion of the Joint Global Coordinators), or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Placing, Citi may borrow up to 53,735,000 Shares from Fifth Element Enterprises Limited, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on May 18, 2007, it is expected that dealings in Shares on the Stock Exchange will commence at 9:30 a.m. on May 18, 2007.

UNDERWRITING ARRANGEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or about May 11, 2007, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Placing.

Underwriting arrangements, the Public Offer Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed “Underwriting”.

HOW TO APPLY FOR PUBLIC OFFER SHARES

There are three ways to make an application for the Public Offer Shares. You may either (i) use an Application Form; (ii) apply online through the designated website of the eIPO service provider, referred to here in as the “**White Form eIPO**” service; or (iii) **electronically** instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** and **yellow** Application Forms or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

If you are an eligible full-time employee of the Company or any of its subsidiaries, other than a director or the chief executive of the Company or any of its subsidiaries, existing beneficial owner of shares of the Company or any of its subsidiaries, or an associate of any of them, and apply on a **pink** Application Form, you may also apply for the Public Offer Shares on a **white** or **yellow** Application Form or by giving, or applying online through **White Form eIPO**, or instructing your broker or custodian (who is a CCASS Broker/Custodian Participant) to give, **electronic application instructions** to HKSCC.

I. WHO CAN APPLY FOR PUBLIC OFFER SHARES

You can apply for the Public Offer Shares available for subscription by the public on a **white** or **yellow** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Public Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm’s name. If the applicant is a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Global Coordinators (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Global Coordinators or the designated eIPO service provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Public Offer Shares are not available to existing beneficial owners of Shares, our Directors or chief executive of their respective associates or any other connected persons of our Company or persons who will become our connected persons immediately upon completion of the Global Offering.

You may apply for Public Offer Shares under the Public Offer or indicate an interest for International Placing Shares under the International Placing, but may not do both.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you are an eligible full-time employee of the Company or any of its subsidiaries, other than a director or the chief executive of the Company or any of its subsidiaries, existing beneficial owner of shares of the Company or any of its subsidiaries or an associate of any of them, you can also apply for the Shares available for subscription by eligible full-time employees on a preferential basis.

II. APPLYING BY USING AN APPLICATION FORM

Which Application Form to use

Use a **white** Application Form if you want the Public Offer Shares issued in your own name.

Use a **yellow** Application Form if you want the Public Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Use a **pink** Application Form if you are an eligible full-time employee of the Company or any of its subsidiaries and want your application to be given preferential consideration. Up to 3,582,000 Public Offer Shares, representing approximately 10% of the Shares initially available for subscription under the Public Offer, are available to eligible full-time employees of the Company or any of its subsidiaries on a preferential basis.

Public Offer Shares are not available to existing beneficial owners of Shares in our Company, the Directors or chief executive of our Company or any of our subsidiaries, or associates of any of them (as "associate" is defined in the Listing Rules) or United States persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

Where to collect Application Forms

You can collect a **white** Application Form and this prospectus during normal business hours from 9:00 a.m. on Monday, May 7, 2007 until 12:00 noon on Thursday, May 10, 2007 from:

**Any participant of
The Stock Exchange of Hong Kong Limited**

or

Citigroup Global Markets Asia Limited
50th Floor, Citibank Tower
Citibank Plaza, 3 Garden Road
Central
Hong Kong

or

Morgan Stanley Dean Witter Asia Limited
30th Floor, Three Exchange Square
Central
Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

or any of the following branches of **Hang Seng Bank, Limited:**

	Branch Name	Address
Hong Kong Island	Head Office	83 Des Voeux Road Central
	Causeway Bay Branch	28 Yee Wo Street
	North Point Branch	335 King's Road
	Wanchai Branch	200 Hennessy Road
Kowloon	Kowloon Main Branch	618 Nathan Road
	Hoi Yuen Road Branch	55 Hoi Yuen Road
	Hung Hom Branch	21 Ma Tau Wai Road
	Tsimshatsui Branch	18 Carnarvon Road
New Territories	Shatin Branch	Shop 18, Lucky Plaza Wang Pok Street Shatin
	Tsuen Wan Branch	289 Sha Tsui Road Tsuen Wan

or any of the following branches of **Industrial and Commercial Bank of China (Asia) Limited:**

	Branch Name	Address
Hong Kong Island	Queen's Road Central Branch	122-126 Queen's Road Central Central Hong Kong
	Wanchai Branch	117-123 Hennessy Road Wanchai Hong Kong
	North Point Branch	G/F, 436-438 King's Road North Point, Hong Kong
Kowloon	Tsimshatsui Branch	Shop 6-7, G/F Hankow Centre 5-15, Hankow Road Tsimshatsui Kowloon
	Prince Edward Branch	777 Nathan Road Mongkok, Kowloon
	Mei Foo Branch	Shop N95A, 1/F Mount Sterling Mall Mei Foo Sun Chuen Kowloon
	Kwun Tong Branch	G/F, Lemmi Centre 50 Hoi Yuen Road Kwun Tong Kowloon
New Territories	Tseung Kwan O Branch	Shop Nos. 2011-2012, Level 2 Metro City, Plaza II 8 Yan King Road Tseung Kwan O New Territories
	Kwai Fong Branch	C63A-C66, 2/F Kwai Chung Plaza Kwai Fong New Territories
	Sha Tsui Road Branch	Shop 4, G/F, Chung On Building 297-313 Sha Tsui Road Tsuen Wan New Territories

HOW TO APPLY FOR PUBLIC OFFER SHARES

or any of the following branches of **Standard Chartered Bank (Hong Kong) Limited:**

	Branch Name	Address
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building 4-4A, Des Voeux Road Central Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central Central
	Central Branch	Shop No. 16, G/F and Lower G/F New World Tower 16-18 Queen's Road Central Central
	Hennessy Road Branch	399 Hennessy Road Wanchai
	Leighton Centre Branch	Shop 12-16, UG/F Leighton Centre 77 Leighton Road Causeway Bay
	Quarry Bay Branch	G/F, Westlands Gardens 1027 King's Road Quarry Bay
Kowloon	Mongkok Branch	Shop B, G/F, 1/F & 2/F 617-623 Nathan Road Mongkok
	Tsimshatsui Branch	G/F, 10 Granville Road Tsimshatsui
	Cheung Sha Wan Branch	828 Cheung Sha Wan Road Cheung Sha Wan
	Kwun Tong Branch	1A Yue Man Square Kwun Tong
	Yaumatei Branch	546-550 Nathan Road Yaumatei
	Telford Gardens Branch	Shop P9-12, Telford Centre Telford Gardens Tai Yip Street Kwun Tong
New Territories	Tsuen Wan Branch	Shop C G/F & 1/F Jade Plaza No. 298 Sha Tsui Road Tsuen Wan
	Shatin Centre Branch	Shop 32C, Level 3 Shatin Shopping Arcade Shatin Centre 2-16 Wang Pok Street Shatin
	Yuen Long Branch	140, Yuen Long Main Road Yuen Long

HOW TO APPLY FOR PUBLIC OFFER SHARES

You can collect a **yellow** Application Form and this prospectus during normal business hours from 9:00 a.m. on Monday, May 7, 2007 until 12:00 noon on Thursday, May 10, 2007 from:

- (1) The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) Your stockbrokers, who may have such application forms and this prospectus available.

You can collect a **pink** Application Form and a Prospectus from the Company's registered address at 7/F, Block B, Eastern Sea Industrial Building, 48-56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong.

How to complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying check(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form. **Pink** Application Form applicants should apply in your own name.

You should note that by signing on the Application Form:

- (a) you confirm that you have only relied on the information and representations in this prospectus and the Applications Form in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- (b) you agree that we, the Directors, the Joint Global Coordinators, the Underwriters and other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (c) you undertake and confirm that you (if the application is made for your benefit), or the person(s) for whose benefit you have made the application, have not indicated an interest for, applied for or taken up any of the International Placing Shares; and
- (d) you agree to disclose to our Company, our registrars, the receiving bankers, the Joint Global Coordinators and their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **yellow** Application Forms to be valid:

- (a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - (i) the designated CCASS Participant or its authorized signatories must sign in the appropriate box; and
 - (ii) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.
- (b) **If the application is made by an individual CCASS Investor Participant:**
 - (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and
 - (ii) the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(c) If the application is made by a joint individual CCASS Investor Participant:

- (i) the Application Form must contain all joint CCASS Investor Participants' names and Hong Kong Identity Card Numbers; and
- (ii) the participant I.D. must be inserted and the authorized signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

(d) If the application is made by a corporate CCASS Investor Participant:

- (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Business Registration number; and
- (ii) the participant I.D. and company chop (bearing its company name) endorsed by its authorized signatories must be inserted in the appropriate box in the Application Form.

Signature(s), number of signatories and form of chop, where appropriate, should match the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorized signatory(ies) (if applicable), participant I.D. or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

If your application is made through a duly authorized attorney, we and Computershare Hong Kong Investor Services Limited as our agent may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and Computershare Hong Kong Investor Services Limited in their capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

III. APPLYING THROUGH WHITE FORM eIPO

General

- (a) If you are an individual and meet the criteria set out above in "I. Who Can Apply For Public Offer Shares", you may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk. If you apply through **White Form eIPO**, the Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated eIPO service provider and may not be submitted to our Company.
- (c) If you give electronic application instructions through the designated website at www.eipo.com.hk, you will have authorized the designated eIPO service provider to apply on the terms and conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.
- (d) In addition to the terms and conditions set out in this prospectus, the designated eIPO service provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (e) By submitting an application to the designated eIPO service provider through the **White Form eIPO** service, you are deemed to have authorized the designated eIPO service provider to transfer the details of your application to our Company and our registrars.
- (f) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Public Offer Shares. Each electronic application instruction in respect of more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (g) You should give **electronic application instructions** through **White Form eIPO** at the times set out in the paragraph headed “V. When May Applications Be Made” below.
- (h) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, May 10, 2007, or such later time as described under the paragraph headed “Effects of bad weather conditions on the opening of the application lists” in the section “V. When May Applications Be Made” below, the designated eIPO service provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.**
- (i) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated eIPO service provider to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.
- (j) **Warning:** The application for Public Offer Shares through the **White Form eIPO** service is only a facility provided by the designated eIPO service provider to public investors. **Our Company, our Directors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Public Offer Shares.**

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the **Hong Kong Public Offer to submit your electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **white** Application Form. However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **white** Application Form. See section headed “VI. How Many Applications May You Make” below.

Additional information

For the purposes of allocating Public Offer Shares, each applicant giving electronic application instructions through **White Form eIPO** service to the eIPO Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated eIPO service provider, the designated eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated eIPO service provider on the designated website at www.eipo.com.hk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Otherwise, any monies payable to you due to a refund for any of the reasons set out below in “IX. Publication of Results; Dispatch/Collection of Share Certificates and Refunds of Applications Monies — If you apply through **White Form eIPO**”.

IV. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) (according to the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our registrar.

Application for Public Offer Shares by HKSCC Nominees on your behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:

- (a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;
- (b) HKSCC Nominees does the following on behalf of each such person:
 - (i) agrees that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person’s behalf or that person’s CCASS Investor Participant stock account;
 - (ii) undertakes and agrees to accept the Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - (iii) undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Offer Shares under the International Placing;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (iv) (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (v) (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
- (vi) understands that the above declaration will be relied upon by us, our Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- (vii) authorizes us to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- (viii) confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- (ix) confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in any supplement to this prospectus, and that person agrees that neither our Company, our Directors, the Joint Global Coordinators, the Underwriters, the Joint Sponsors, or any of the parties involved in the Global Offering will have any liability for any such other information or representation;
- (x) agrees that our Company, the Joint Global Coordinators, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisors are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (xi) agrees to disclose that person's personal data to our Company, our registrar, receiving banker, the Joint Global Coordinators, the Underwriter and any of their respective advisors and agents and any information which they may require about that person for whose benefit the application is made;
- (xii) agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- (xiii) agrees that any application made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable on or before June 6, 2007, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before June 6, 2007, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before June 6, 2007 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (xiv) agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Public Offer published by our Company;
- (xv) agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Public Offer Shares;
- (xvi) agrees with our Company, for ourselves and for the benefit of each of our shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Cayman Islands Companies Law, the Companies Ordinance and the Articles of Association; and
- (xvii) agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum offer price, and the related brokerage fee, the SF transaction levy, and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies (in each case including brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

Minimum application amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Public Offer Shares. Such instructions in respect of more than 10,000 Public Offer Shares must be in one of the number of shares in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Section 40 of the Companies Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by us, our registrars, receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The application for the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **white** or **yellow** Application Form; or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, May 10, 2007 or such later time as described in the paragraph headed “V. When May Applications Be Made — Effect of bad weather on the opening of the application lists” below.

V. WHEN MAY APPLICATIONS BE MADE

Applications on White or Yellow Application Forms

Completed **white** and **yellow** Application Forms, with payment attached, must be lodged by 12:00 noon on Thursday, May 10, 2007, or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, with full payment in Hong Kong dollars attached, should be deposited in the special collection boxes provided at any of the branches of the receiving bankers listed under the section headed “II. Applying Using an Application Form — Where to collect Application Forms” above at the following times:

<i>Monday, May 7, 2007</i>	—	<i>9:00 a.m. to 4:30 p.m.</i>
<i>Tuesday, May 8, 2007</i>	—	<i>9:00 a.m. to 4:30 p.m.</i>
<i>Wednesday, May 9, 2007</i>	—	<i>9:00 a.m. to 4:30 p.m.</i>
<i>Thursday, May 10, 2007</i>	—	<i>9:00 a.m. to 12:00 noon</i>

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, May 10, 2007.

No proceedings will be taken on applications for the Public Offer Shares and no allotment of any such Public Offer Shares will be made until the closing of the application lists. No allotment of any of the Public Offer Shares will be made later than Thursday, May 17, 2007.

HOW TO APPLY FOR PUBLIC OFFER SHARES

White Form eIPO

You may submit your application to the designated eIPO service provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Monday, May 7, 2007 until 11:30 a.m. on Thursday, May 10, 2007 or such later time as described under the paragraph headed “Effects of bad weather conditions on the opening of the applications lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, May 10, 2007, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effects of bad weather conditions on the opening of the applications lists” below.

You will not be permitted to submit your application to the designated eIPO service provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

Electronic Application Instructions to HKSCC via CCASS

CCASS Broker/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

<i>Monday, May 7, 2007</i>	—	<i>9:00 a.m. to 8:30 p.m.⁽¹⁾</i>
<i>Tuesday, May 8, 2007</i>	—	<i>8:00 a.m. to 8:30 p.m.⁽¹⁾</i>
<i>Wednesday, May 9, 2007</i>	—	<i>8:00 a.m. to 8:30 p.m.⁽¹⁾</i>
<i>Thursday, May 10, 2007</i>	—	<i>8:00 a.m.⁽¹⁾ to 12:00 noon</i>

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, May 7, 2007 until 12:00 noon on Thursday, May 10, 2007 (24 hours daily, except the last application day).

The latest time for inputting **electronic application instructions** via CCASS will be 12:00 noon on Thursday, May 10, 2007, the last application day, or if the application lists are not open on that day, by the time and date stated in the paragraph headed “Effects of bad weather on the opening of the application lists” below.

Application on Pink Application Forms

Completed **pink** Application Forms, together with payment attached, must be returned to Mr. Lam Hing Chau Leon, the secretary of the Company, the registered office of the Company at 7/F, Block B, Eastern Sea Industrial Building, 48-56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong no later than 5:00 p.m. on Wednesday, May 9, 2007.

Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

HOW TO APPLY FOR PUBLIC OFFER SHARES

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, May 10, 2007. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon.

If the application lists of the Public Offer do not open and close on Thursday, May 10, 2007 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” in this prospectus, such dates mentioned in the section headed “Expected Timetable” in this prospectus may be affected. A press announcement will be made in such event.

VI. HOW MANY APPLICATIONS MAY YOU MAKE

Multiple applications or suspect multiple applications are liable to be rejected.

You may make more than one application for the Public Offer Shares only in the following circumstances:

- (a) **if you are a nominee**, in which case you may both give *electronic application instructions* to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit; or

- (b) **if you are an eligible full-time employee**, other than a director or the chief executive of the Company or any of its subsidiaries or existing beneficial owner of shares of the Company or any of its subsidiaries, or an associate of any of them, and apply on a **pink** application form, you may also apply for the Public Offer Shares on a **white** or **yellow** application form or by giving, or applying online through **White Form eIPO**, or instructing your broker or custodian (who is a CCASS Broker/Custodian Participant) to give, **electronic application instructions** to HKSCC.

Otherwise, multiple applications are not allowed and will be rejected.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated eIPO service provider to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at www.eipo.com.hk and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

It will be a term and condition of all applications that by completing and delivering a **white** or **yellow** Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to a **white** or **yellow** Application Form or **electronic application instruction** is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated eIPO service provider through **White Form eIPO** service; or
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person which confirm that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated eIPO service provider through **White Form eIPO** service, and that you are duly authorized to sign the Application Form or give **electronic application instructions** as that other person's agent.

Save as referred to above, **all** of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated eIPO service provider through **White Form eIPO** service; or
- both apply (whether individually or jointly) on one **white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form and give **electronic application instructions** to HKSCC or to the designated eIPO service provider through **White Form eIPO** service; or
- apply on one **white** or **yellow** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the designated eIPO service provider through **White Form eIPO** service for more than 16,121,000 Public Offer Shares, (being 50% of the Public Offer Shares initially available for subscription under the Public Offer less the

HOW TO APPLY FOR PUBLIC OFFER SHARES

Public Offer Shares initially available for subscription by eligible full-time employees of the Company or any of its subsidiaries on a preferential basis (as more particularly described in the section headed “Structure of the Global Offering – Preferential Offer to Full-time Employees”)); or

- apply on one **pink** application form for more than 100% of the Public Offer Shares initially available for subscription by eligible full-time employees on a preferential basis; or
- have indicated an interest for or have been or will be placed any of the International Placing Shares.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company; or
- control more than one-half of the voting power of the company; or
- hold more than one-half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

VII. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Public Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Public Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or submitting an **electronic application instruction** you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before June 6, 2007, unless a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your application. This collateral contract will be in consideration of our Company agreeing that we will not offer any Public Offer Shares to any person on or before June 6, 2007, except by means of one of the procedures referred to in this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked or withdrawn. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) Full discretion of our Company, the Joint Global Coordinators or the designated eIPO service provider (where applicable) or our or their respective agents or nominees to reject or accept:

We, the Joint Global Coordinators or the designated eIPO service provider (where applicable) or our or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

(c) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **yellow** Application Form) will be void if the Listing Committee does not grant permission to list the Public Offer Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies us of that longer period within three weeks of the closing date of the application lists.

(d) You will not receive any allotment if:

- you make multiple applications or you are suspected to have made multiple applications;
- you or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) International Placing Shares. By filling in any of the Application Forms or submitting **electronic application instructions**, you agree not to apply for or indicate an interest for Offer Shares in the International Placing. Reasonable steps will be taken to identify and reject applications in the Public Offer from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Public Offer Shares in the Public Offer;
- your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.eipo.com.hk;
- your payment is not made correctly or you pay by check or banker's cashier order and the check or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- you apply for more than 16,121,000 Public Offer Shares (being 50% of the Public Offer Shares initially available for subscription under the Public Offer less the Public Offer Shares initially available for subscription by eligible full-time employees of the Company or any of its subsidiaries on a preferential basis (as more particularly described in the section headed "Structure of the Global Offering — Preferential Offer to Eligible Full-time Employees"));
- our Company believes that by accepting your application, we would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address overleaf is located;
- the Underwriting Agreements do not become unconditional; or

HOW TO APPLY FOR PUBLIC OFFER SHARES

- the Public Offer Underwriting Agreement and/or the International Underwriting Agreement are/is terminated in accordance with their respective terms.

You should also note that you may apply for Offer Shares under the Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

VIII. HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum offer price is HK\$5.50 per Public Offer Share. You must also pay brokerage fee of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%. This means that for every board lot of 1,000 Public Offer Shares, you will pay HK\$5,555.50. The Application Forms have tables showing the exact amount payable for the numbers of Public Offer Shares that may be applied for.

You must pay the maximum offer price and related brokerage fee, SFC transaction levy, and the Stock Exchange trading fee in full when you apply for the Public Offer Shares. You must pay the amount payable upon application for Public Offer Shares by a check or a banker's cashier order in accordance with the terms set out in the Application Form or this prospectus.

If your application is successful, brokerage fee is paid to participants of the Stock Exchange or the Stock Exchange, the SFC transaction levy, and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy collected by the Stock Exchange on behalf of the SFC).

IX. PUBLICATION OF RESULTS; DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUNDS OF APPLICATIONS MONIES

Publication of results

The Offer Price, the level of indication of interest in the International Placing, the basis of allotment, the results of applications and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Public Offer will be made available at the times and date and in the manner specified below:

- results of allocations will be available from our Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Public Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, May 17, 2007 to Sunday, May 20, 2007;
- results of allocations will be available from our Public Offer website at www.iporesults.com.hk and our website at www.pacific-textiles.com on a 24-hour basis from 8:00 a.m. on Thursday, May 17, 2007 to 12:00 midnight on Wednesday, May 23, 2007. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result; and
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, May 17, 2007 to Saturday, May 19, 2007 at all the receiving banker branches at the addresses set out in the section headed "II. Applying by Using An Application Form — Where to collect Application Forms".

Dispatch/collection of share certificates and refund checks

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Offer Share (excluding brokerage fee, SFC transaction levy, and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Public Offer" or if any application is revoked or any allotment pursuant thereto has become void, the

HOW TO APPLY FOR PUBLIC OFFER SHARES

application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy, and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Public Offer Shares. No receipt will be issued for sums paid on application.

If you apply by **white** or **yellow** Application Form or by giving electronic instructions through **White Form eIPO** service, subject as mentioned below, in due course, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) (i) share certificate(s) for all the Public Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Public Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **yellow** Application Forms whose share certificates will be deposited into CCASS as described below); and/or
- (b) refund check(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including related brokerage fee at the rate of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% but without interest.

Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund check, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund check. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund check.

Subject as mentioned below, refund checks for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and share certificates for successful applicants under **white** Application Forms and **White Form IPO** are expected to be posted on or before Thursday, May 17, 2007. The right is reserved to retain any share certificates and any surplus application monies pending clearance of check(s).

If you apply by giving **electronic application instructions to HKSCC**, and your application is wholly or partially successful:

- (a) your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give electronic application instructions on your behalf or your CCASS Investor Participant stock account at the close of business on Thursday, May 17, 2007 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees; and
- (b) refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Public Offer Share paid on application, in each case including the related brokerage fee of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, May 17, 2007. No interest will be paid thereon.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you apply using a white Application Form:

If you have applied for 1,000,000 Public Offer Shares or more and you have elected on your **white** Application Form to collect your refund check(s) (where applicable) and/or share certificate(s) (where applicable) in person, you may collect your refund check(s) (where applicable) and/or share certificate(s) (where applicable) from our Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, May 17, 2007. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund check(s) and share certificate(s) within the time period specified for collection, they will be dispatched thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your application forms that you will collect your share certificate(s) and/or refund check(s) (if any) in person, or you have applied for less than 1,000,000 Public Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Public Offer are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Public Offer" in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your share certificate(s) (where applicable) and/or refund check(s) (where applicable) in respect of the application monies or the appropriate parties thereof, together with the related brokerage fee, Stock Exchange trading fee, and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Thursday, May 17, 2007 by ordinary post and at your own risk.

If you apply using a yellow Application Form:

If you apply for Public Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Thursday, May 17, 2007, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Public Offer on Thursday, May 17, 2007 in the manner described in the paragraph headed "IX. Publication of Results — Publication of results" above. You should check the results published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, May 17, 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees. You can also check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account, and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you apply for 1,000,000 Public Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund check (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your application forms that you will collect your refund check(s) (if any) in person, or you have applied for less than 1,000,000 Public Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Public Offer are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Public Offer” in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your refund check(s) (where applicable) in respect of the application monies or the appropriate portion thereof, together with the related brokerage fee, Stock Exchange trading fee, SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Thursday, May 17, 2007 by ordinary post and at your own risk.

If you apply through White Form eIPO

If you apply for 1,000,000 Public Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated eIPO service provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund check(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, May 17, 2007, or such other date as notified by our company in the newspapers as the date of dispatch/collection of Share certificates/refund checks.

If you do not collect your Share certificate(s) and/or refund check(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated eIPO service provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) and/or refund check(s) (where applicable) will be sent to the address specified in your application instructions to the designated eIPO service provider through the designated website at www.eipo.com.hk on Thursday, May 17, 2007 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated eIPO service provider set out above in “III. Applying Through White Form eIPO — Additional information”.

If you apply through HKSCC Nominees

If you apply by giving **electronic instructions** through HKSCC Nominees, you should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, May 17, 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

If you have applied as a CCASS Investor Participant (by using a **yellow** Application Form or giving **electronic instructions** to HKSCC Nominees), you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Thursday, May 17, 2007. HKSCC will

HOW TO APPLY FOR PUBLIC OFFER SHARES

also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

If you apply using a pink Application Form

If you apply on a **pink** Application Form, the Share Certificate(s) and/or refund check(s) (where applicable) will be sent to the address on your Application Form on Thursday, May 17, 2007 by ordinary post and at your own risk.

Refund of application monies

If you do not receive any Public Offer Shares for any reason, we will refund your application monies, including related brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage fee of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Public Offer Share (excluding brokerage fee, SFC transaction levy, and Stock Exchange trading fee thereon) paid on application, we will refund to you the surplus application monies, together with the related brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of dispatch of refund will be retained for our benefit.

In a contingency situation involving a substantial over-application, at the discretion of us and the Joint Global Coordinators, for applications made on Application Forms for certain small denominations of Public Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Thursday, May 17, 2007 in accordance with the various arrangements as described above.

X. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, May 18, 2007.

The Shares will be traded in board lots of 1,000 each. The stock code of the Shares is 1382.

XI. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong for the purposes of incorporation in this prospectus.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

The Directors
Pacific Textiles Holdings Limited

May 7, 2007

Citigroup Global Markets Asia Limited
Morgan Stanley Dean Witter Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to Pacific Textiles Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended March 31, 2004, 2005 and 2006 and eight months ended November 30, 2005 and 2006 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated May 7, 2007 (the “Prospectus”) in connection with the initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on October 12, 2004 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1 of Section II below (the “Reorganisation”), which was completed in November 2004, the Company became the holding company of the subsidiaries comprising the Group. Particulars of the subsidiaries comprising the Group and its associates are set out in Note 1 and 11 of Section II. All of these companies are private companies.

All companies comprising the Group and its associates have adopted March 31 as their financial year end date except for Textured Jersey Lanka (Private) Limited, Pacific (Panyu) Textiles Limited and SPM Automative Textile Co., Limited which have adopted December 31 as their financial year end date.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The financial information as set out in Sections I to III (the “Financial Information”) has been prepared based on the audited/unaudited financial statements of the companies comprising the Group for the year ended March 31, 2004, the audited financial statements of the Group for the years ended March 31, 2005 and 2006 and the unaudited consolidated financial statements of the Group for the eight months ended November 30, 2005 and 2006, after making such adjustments as appropriate.

The directors of the respective companies comprising the Group, during the Relevant Periods, are responsible for preparing the respective financial statements which give a true and fair view. In preparing the financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are responsible for the Financial Information which gives a true and fair view.

For the Financial Information for each of the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2006, it is our responsibility to express an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

For the Financial Information for the eight months ended November 30, 2005, it is our responsibility to form an independent conclusion, based on our review, on the Financial Information and to report our conclusion to you.

BASIS OF OPINION AND REVIEW WORK PERFORMED

For the Financial Information for each of the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2006, we examined the audited financial statements or, where appropriate, the unaudited financial statements of all companies comprising the Group and its associates. For the purpose of this report, we have carried out independent audit procedures on the financial statements of the companies comprising the Group in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountants" issued by the HKICPA.

For the Financial Information for the eight months ended November 30, 2005, we conducted our review on the Financial Information in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the Group management and applying analytical procedures to the Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Financial Information for the eight months ended November 30, 2005.

OPINION AND REVIEW CONCLUSION

In our opinion, the Financial Information for each of the years ended March 31, 2004, 2005 and 2006 and eight months ended November 30, 2006, for the purpose of this report, gives a true and fair view of the state of affairs of the Company as at March 31, 2005 and 2006 and November 30, 2006 and of the Group as at March 31, 2004, 2005 and 2006 and November 30, 2006 and of the Group's results and cash flows for the years/period then ended.

On the basis of our review which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the Financial Information for the eight months ended November 30, 2005.

I FINANCIAL INFORMATION

(a) Consolidated balance sheets

The following are the consolidated balance sheets of the Group for the Relevant Periods, after making such adjustments as are appropriate.

	Section II Note	As at March 31,			As at November 30,
		2004	2005	2006	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS					
Non-current assets					
Leasehold land and land use rights	7	20,489	21,527	21,775	21,934
Property, plant and equipment	8	602,136	817,819	917,363	1,118,367
Goodwill	9	—	10,443	—	—
Interest in associates	11	—	—	10,024	13,981
Deferred taxation	20	—	2,850	5,300	6,960
Other investments	12	1,804	1,780	—	—
Available-for-sale financial assets	12	—	—	1,830	2,093
		<u>624,429</u>	<u>854,419</u>	<u>956,292</u>	<u>1,163,335</u>
Current assets					
Inventories	13	616,496	530,741	689,900	766,327
Amount due from shareholders	35	35,020	—	—	—
Trade and bills receivables	14	431,721	446,495	560,215	726,802
Deposits, prepayments and other receivables	15	34,652	37,189	16,813	23,562
Derivative financial instruments	23	—	—	470	1,532
Cash and bank balances	16	76,904	215,818	131,038	135,857
		<u>1,194,793</u>	<u>1,230,243</u>	<u>1,398,436</u>	<u>1,654,080</u>
Total assets		<u>1,819,222</u>	<u>2,084,662</u>	<u>2,354,728</u>	<u>2,817,415</u>
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	17	1	11	11	11
Reserves	18	1,118,130	1,519,403	1,044,485	1,251,697
		<u>1,118,131</u>	<u>1,519,414</u>	<u>1,044,496</u>	<u>1,251,708</u>
Minority interests		—	4,224	42,800	47,850
Total equity		<u>1,118,131</u>	<u>1,523,638</u>	<u>1,087,296</u>	<u>1,299,558</u>
LIABILITIES					
Non-current liabilities					
Borrowings	19	25,000	81,448	469,686	520,813
Finance lease obligations	19	116	176	232	979
Deferred taxation	20	1,660	—	—	—
		<u>26,776</u>	<u>81,624</u>	<u>469,918</u>	<u>521,792</u>
Current liabilities					
Trade and bills payables	21	361,740	322,302	419,279	402,551
Accruals and other payables	22	34,678	50,791	92,076	163,719
Borrowings	19	272,639	86,664	247,874	358,205
Finance lease obligations	19	62	143	267	825
Derivative financial instruments	23	—	—	489	2,039
Amount due to a shareholder	35	—	3,120	—	—
Amount due to a minority shareholder	35	—	7,594	—	—
Current income tax liabilities		5,196	8,786	37,529	68,726
		<u>674,315</u>	<u>479,400</u>	<u>797,514</u>	<u>996,065</u>
Total liabilities		<u>701,091</u>	<u>561,024</u>	<u>1,267,432</u>	<u>1,517,857</u>
Total equity and liabilities		<u>1,819,222</u>	<u>2,084,662</u>	<u>2,354,728</u>	<u>2,817,415</u>
Net current assets		<u>520,478</u>	<u>750,843</u>	<u>600,922</u>	<u>658,015</u>
Total assets less current liabilities		<u>1,144,907</u>	<u>1,605,262</u>	<u>1,557,214</u>	<u>1,821,350</u>

(b) Balance sheets

	Section II Note	As at March 31,		As at
		2005	2006	November 30,
		HK\$'000	HK\$'000	2006
				HK\$'000
ASSETS				
Non-current assets				
Investment in subsidiaries	10	—	—	—
Current assets				
Amounts due from subsidiaries	35	129,130	234,440	234,398
Cash and bank balances	16	62,009	123	61
		<u>191,139</u>	<u>234,563</u>	<u>234,459</u>
Total assets		<u>191,139</u>	<u>234,563</u>	<u>234,459</u>
EQUITY				
Share capital	17	11	11	11
Reserves	18	187,824	189,155	189,170
		<u>187,835</u>	<u>189,166</u>	<u>189,181</u>
LIABILITIES				
Current liabilities				
Amount due to subsidiaries	35	184	45,263	45,150
Amount due to a shareholder	35	3,120	—	—
Accruals and other payables		—	134	128
Total liabilities		<u>3,304</u>	<u>45,397</u>	<u>45,278</u>
Total equity and liabilities		<u>191,139</u>	<u>234,563</u>	<u>234,459</u>
Net current assets		<u>187,835</u>	<u>189,166</u>	<u>189,181</u>
Total assets less current liabilities		<u>187,835</u>	<u>189,166</u>	<u>189,181</u>

(c) Consolidated income statements

The following are the consolidated income statements of the Group for the Relevant Periods, after making such adjustments as are appropriate.

	Section II Note	Year ended March 31,			Eight months ended November 30,	
		2004	2005	2006	2005 (unaudited)	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	6	2,265,821	2,922,840	3,363,029	2,187,012	2,887,077
Cost of sales		(1,628,508)	(2,283,379)	(2,560,773)	(1,660,654)	(2,222,519)
Gross profit		637,313	639,461	802,256	526,358	664,558
Other revenue	24	20,152	34,125	48,931	26,064	29,899
Distribution and selling expenses		(149,615)	(128,928)	(129,624)	(83,186)	(95,301)
General and administrative expenses		(125,819)	(133,776)	(165,662)	(103,066)	(106,994)
Operating profit	25	382,031	410,882	555,901	366,170	492,162
Finance costs	27	(1,460)	(4,525)	(7,404)	(4,139)	(29,012)
Share of loss of associates	11	—	—	(272)	—	(886)
Profit before income tax		380,571	406,357	548,225	362,031	462,264
Income tax expense	28	(73,272)	(55,933)	(78,875)	(51,327)	(59,602)
Profit for the year/period		307,299	350,424	469,350	310,704	402,662
Attributable to:						
Equity holders of the Company		307,299	351,679	458,855	308,344	397,612
Minority interests		—	(1,255)	10,495	2,360	5,050
		307,299	350,424	469,350	310,704	402,662
Dividends	30	—	127,720	941,205	161,205	234,000
Earnings per share – basic and diluted (HK\$ per share)	29	298.35	71.23	42.70	28.69	37.00

(d) Consolidated statements of changes in equity

The following are the consolidated statements of changes in equity of the Group for the Relevant Periods, after making such adjustments as are appropriate.

Section II Note	Attributable to equity holders of the Company			Minority interests	Total equity
	Share capital	Reserves	Total		
	HK\$'000 (Note 17)	HK\$'000 (Note 18)	HK\$'000	HK\$'000	HK\$'000
Balance at April 1, 2003	1	810,831	810,832	—	810,832
Profit for the year	—	307,299	307,299	—	307,299
Balance at March 31, 2004	1	1,118,130	1,118,131	—	1,118,131
Issuance of new shares	11	326,671	326,682	—	326,682
Profit for the year	—	351,679	351,679	(1,255)	350,424
Repurchase of shares (Note 17(e))	(1)	(149,357)	(149,358)	—	(149,358)
Dividends	30	(127,720)	(127,720)	—	(127,720)
Contribution from minority shareholders	—	—	—	5,479	5,479
Balance at March 31, 2005	11	1,519,403	1,519,414	4,224	1,523,638
Profit for the year	—	458,855	458,855	10,495	469,350
Currency translation differences	—	7,432	7,432	—	7,432
Dividends	30	(941,205)	(941,205)	—	(941,205)
Contribution from minority shareholders	—	—	—	28,081	28,081
Balance at March 31, 2006	11	1,044,485	1,044,496	42,800	1,087,296
Profit for the period	—	397,612	397,612	5,050	402,662
Currency translation differences	—	43,600	43,600	—	43,600
Dividends	30	(234,000)	(234,000)	—	(234,000)
Balance at November 30, 2006	11	1,251,697	1,251,708	47,850	1,299,558
For the eight months ended November 30, 2005 (Unaudited)					
Balances at April 1, 2005	11	1,519,403	1,519,414	4,224	1,523,638
Profit for the period	—	308,344	308,344	2,360	310,704
Currency translation differences	—	7,432	7,432	—	7,432
Dividends	30	(161,205)	(161,205)	—	(161,205)
Contribution from minority shareholders	—	—	—	22,464	22,464
Balance at November 30, 2005	11	1,673,974	1,673,985	29,048	1,703,033

(e) Consolidated cash flow statements

The following are the consolidated cash flow statements of the Group for the Relevant Periods, after making such adjustments as are appropriate.

Section II Note	Year ended March 31,			Eight months ended November 30,		
	2004	2005	2006	2005 (unaudited)	2006	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cash flows from operating activities						
Cash generated from operations	31(a)	193,343	602,639	615,730	432,879	425,093
Interest paid		(1,460)	(4,525)	(7,404)	(4,139)	(29,012)
Interest income received		345	621	5,852	4,133	2,596
Hong Kong profits tax paid		(173,480)	(39,533)	(28,441)	(16,534)	(11,146)
Overseas tax paid		—	(12,650)	(19,090)	(5,197)	(18,919)
Net cash generated from operating activities		18,748	546,552	566,647	411,142	368,612
Cash flows from investing activities						
Acquisition of a subsidiary, net of cash acquired	34	—	(10,919)	—	—	—
Purchase of property, plant and equipment		(285,582)	(232,104)	(272,187)	(188,734)	(300,047)
Prepayment of leasehold land and land use rights		(4,260)	—	(330)	—	—
Proceeds from disposal of property, plant and equipment	31(b)	499	83	1,080	14	5
Additions of investments and available-for-sale financial assets	12	(820)	—	(50)	(20)	(263)
Investment in associates	11	—	—	(10,296)	(1,930)	(4,524)
Dividend income		5	1	2	2	8
Net cash used in investing activities		(290,158)	(242,939)	(281,781)	(190,668)	(304,821)
Net cash (outflow)/inflow before financing activities		(271,410)	303,613	284,866	220,474	63,791
Cash flows from financing activities						
Proceeds from issuance of share capital		—	326,682	—	—	—
Repurchase of share capital		—	(149,358)	—	—	—
Advance from a shareholder		—	3,120	—	—	—
Advance from a minority shareholder		—	7,800	10,530	10,530	—
New borrowings		472,389	299,481	672,753	—	299,120
Repayment of borrowings		(231,000)	(578,778)	(124,018)	(34,557)	(130,265)
Repayment of capital element of finance lease obligations		(2,102)	(110)	(239)	(128)	(566)
Dividends paid		—	(92,700)	(941,205)	(161,205)	(234,000)
Net cash generated from/(used in) financing activities		239,287	(183,863)	(382,179)	(185,360)	(65,711)
Net (decrease)/increase in cash and cash equivalents		(32,123)	119,750	(97,313)	35,114	(1,920)
Cash and cash equivalents at the beginning of the year/period		109,027	76,904	196,654	196,654	93,611
Foreign exchange adjustment		—	—	(5,730)	(5,730)	14,136
Cash and cash equivalents at the end of the year/period		76,904	196,654	93,611	226,038	105,827
Analysis of cash and cash equivalents						
Cash and bank balances	16(a)	76,904	215,818	131,038	241,171	135,857
Bank overdrafts	19(a)	—	(19,164)	(37,427)	(15,133)	(30,030)
		76,904	196,654	93,611	226,038	105,827

II NOTES TO THE FINANCIAL INFORMATION

1 GROUP STRUCTURE, REORGANISATION AND PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacture and trading of textile products. Its production bases are primarily located in the People's Republic of China (the "PRC") and Sri Lanka.

The Company was incorporated in the Cayman Islands on October 12, 2004 as an exempted company with limited liability under the Company Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

In November 2004, pursuant to a group reorganisation (the "Reorganisation"), the Company acquired, directly and indirectly, the entire issued share capital of Pacific Textiles Limited, Pacific Overseas Textiles Macao Commercial Offshore Limited, Pacific (Panyu) Textiles Limited and Spider Textiles Limited and became the holding company of these companies.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group		Principal activities and place of operations	Note
			Direct	Indirect		
Pacific Textiles Limited	Hong Kong/ March 22, 1994	HK\$103,000,000	–	100%	Textiles trading	(i)
Pacific Overseas Textiles Macao Commercial Offshore Limited	Macau/ December 13, 2002	MOP1,030,000	–	100%	Textiles trading	(ii)
Textured Jersey Lanka (Private) Limited	Sri Lanka/ July 12, 2000	Rs1,597,229,000	–	52%	Textiles manufacture and trading	(iii)
Pacific (Panyu) Textiles Limited	Mainland China/ July 23, 1997	Registered/ paid up capital US\$55,700,000	–	100%	Manufacture and sale of textile products	(iv)
Pacific Textured Jersey Holdings Ltd.	British Virgin Islands/ October 13, 2004	HK\$1	100%	–	Investment holding	(vi)
Pacific Textiles Overseas Holdings Ltd.	British Virgin Islands/ October 13, 2004	HK\$1	100%	–	Investment holding	(vi)
Pacific HK & China Holdings Ltd.	British Virgin Islands/ October 13, 2004	HK\$1	100%	–	Investment holding	(vi)
Pacific SPM Holdings Ltd.	British Virgin Islands/ July 22, 2005	HK\$1	100%	–	Investment holding	(vi)
Solid Ally International Ltd.	British Virgin Islands/ April 18, 2006	HK\$1	100%	–	Investment holding	(vi)
Lehan Resources Ltd.	British Virgin Island/ March 28, 2006	HK\$1	100%	–	Investment holding	(vi)
Pacific/Textured Jersey Ltd.	United Kingdom/ February 11, 2005	GBP100	–	100%	Fabrics agency	(v)

Notes:

- (i) The statutory financial statements of Pacific Textiles Limited for the years ended March 31, 2004, 2005 and 2006 were audited by us.
- (ii) The statutory financial statements of Pacific Overseas Textiles Macao Commercial Offshore Limited for the years ended March 31, 2004, 2005 and 2006 were audited by PricewaterhouseCoopers, Macao, Sociedade de Auditores.
- (iii) The statutory financial statements of Textured Jersey Lanka (Private) Limited for the years ended December 31, 2004, 2005 and 2006 were audited by PricewaterhouseCoopers, Sri Lanka, Chartered Accountants.
- (iv) The statutory financial statements of Pacific (Panyu) Textiles Limited for the years ended December 31, 2004, 2005 and 2006 were audited by Guangzhou Decent, Certified Public Accountants, Mainland China.
- (v) The statutory financial statements of Pacific Textured Jersey Limited for the year ended March 31, 2006 were audited by Nunn Hayward, Chartered Accountants, Registered Auditor, United Kingdom.
- (vi) No audited financial statements were issued for these companies as they are not required to issue audited accounts under the local statutory requirements.

The consolidated financial statements of the Group for the years ended March 31, 2005 and 2006 were audited by us.

Spider Textiles Limited was dormant for the years ended March 31, 2004, 2005 and 2006. The Company was disposed of on March 15, 2006 to Mr. Tsang Kang Po, a director of the Company for an insignificant amount.

2 BASIS OF PRESENTATION

The Reorganisation involved companies under common control and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Financial Information has been prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented. The Financial Information presents the consolidated results, consolidated cash flows and consolidated financial position of the Group as if the Company had been in existence throughout the Relevant Periods and the current structure had been in place as at the earliest period presented, or since their respective dates of incorporation/establishment or acquisition where they were not existed at those dates.

All companies comprising the Group have adopted March 31, as their financial year end date except for Textured Jersey Lanka (Private) Limited and Pacific (Panyu) Textiles Limited. These two companies have been consolidated using management accounts for the year ended March 31.

No balance sheet of the Company as at March 31, 2004 is presented as the Company was not yet incorporated on that date.

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), including Hong Kong Accounting Standards ("HKAS") and Interpretations promulgated by the HKICPA.

The Financial Information has been prepared under the historical cost convention except that certain financial assets and financial liabilities are measured at fair value, as appropriate.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 5.

In the year beginning on April 1, 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives of prior years have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 28, 33 and 36 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of certain disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28 and 33 had no material effect on the Group's policies.
- The adoption of revised HKAS 17 Leases has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are presented on the face of the balance sheet as leasehold land prepayments and expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment. In prior years, the leasehold land prepayments were accounted for at cost or valuation less accumulated depreciation.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. The Company has a functional currency as the presentation currency. The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency in accordance with the Group's accounting policies.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.
- The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until March 31, 2005, goodwill was:
 - Amortised on a straight line basis over a period ranging from 5 to 20 years; and
 - Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from April 1, 2005;
- Accumulated amortisation as at March 31, 2005 has been eliminated with a corresponding decrease in the cost of goodwill;

From the year ended March 31, 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

- The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification and accounting treatment of financial assets and liabilities. It has also resulted in the recognition of derivative financial instruments at fair value.

The adoption of revised HKAS 17 resulted in:

	Group			
	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Decrease in property, plant and equipment	(20,489)	(21,527)	(21,775)	(21,934)
Increase in leasehold land and land use rights . . .	20,489	21,527	21,775	21,934

The adoption of HKAS 39 resulted in:

	Group			
	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Increase in available-for-sale financial assets . . .	—	—	1,830	2,093
Decrease in other investments	—	—	(1,830)	(2,093)
Increase in derivative financial instruments — assets	—	—	470	1,532
Increase in derivative financial instruments — liabilities	—	—	489	2,039

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application except that HKAS 39 does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

At the date of this report, the HKICPA has issued the following new/revised standards or interpretations that are not yet effective. The Group has considered these standards and interpretations but does not expect the adoption of such standards or interpretations will result in substantial changes to the Group's accounting policies.

- HKFRS 7, "Financial instruments: Disclosures" and a complementary amendment to HKAS 1, "Capital Disclosures", effective for annual periods beginning on or after January 1, 2007. These require the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk, and disclosures about the level of an entity's capital and how it manages capital. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning April 1, 2007;
- HKFRS 8, "Operating segments", effective for annual periods beginning on or after January 1, 2009. These require the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. This standard does not have significant impact on the classification and presentation of the Group's accounting policies;

- HK(IFRIC)-Int 8, “Scope of HKFRS 2”, effective for periods beginning on or after May 1, 2006. Management is currently assessing the impact of the interpretation but does not expect there will be a material effect on the Group’s results or financial position;
- HK(IFRIC)-Int 9, “Reassessment of Embedded Derivatives”, effective for periods beginning on or after June 1, 2006. Management does not expect the interpretation to be relevant for the Group; and
- HK(IFRIC)-Int 10, “Interim Reporting and Impairment”, effective for periods beginning on or after November 1, 2006. Management is currently assessing the impact of the interpretation but does not expect there will be a material effect on the Group’s results or financial position.
- HK(IFRIC)-Int 11, “HKFRS2 — Group and Treasury Share Transactions”, effective for periods beginning on or after March 1, 2007. Management is currently assessing the impact of the interpretation but does not expect there will be a material effect on the Group’s results or financial position.
- HK(IFRIC)-Int 12, “Service Concession Arrangements”, effective for periods beginning on or after January 1, 2008. Management is currently assessing the impact of the interpretation but does not expect there will be a material effect on the Group’s results or financial position.

3 PRINCIPAL ACCOUNTING POLICIES

3.1 Consolidated financial statements

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to March 31.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Except for the Reorganisation, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Except for the Reorganisation, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of an impairment of the asset transferred.

In the Company’s balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3.2 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group’s investment in associates includes goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the applicable associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

3.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong Dollar ("HK\$"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end/period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognized in income statement and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities or operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.5 Leasehold land and land use rights

The up-front prepayments made for leasehold land and land use rights are accounted for as operating leases. They are expensed in the income statement on a straight-line basis over the periods of the lease, or when there is impairment, the impairment is expensed in the income statement.

3.6 Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment other than construction in progress are calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	2%–4%
Leasehold improvements	20%
Plant and machinery	10%–20%
Furniture and equipment	12.5%–25%
Motor vehicles and vessel	20%–25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress represents buildings or leasehold improvements on which construction work has not been completed. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided for construction in progress until they are completed and available for use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are charged to the income statement.

3.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/jointly controlled entity at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

3.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.9 Other investments and financial assets

(a) From April 1, 2003 to March 31, 2005, the Group classified its investment in securities, other than subsidiaries, associates and jointly controlled entities, as other investments. Other investment which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement.

(b) From April 1, 2005, the Group classifies its financial assets as available-for-sale or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

Purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of financial assets classified as available for sale are recognized in equity. Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.11 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision or subsequent recoveries of amounts previously written off are recognized in the income statement within distribution and selling expenses.

3.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

3.13 Forward foreign exchange contracts

Derivatives are classified as held for trading unless they are designated as hedges. Assets or liabilities in this category are classified as current assets or current liabilities if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Forward foreign exchange contracts are classified as held for trading.

Forward foreign exchange contracts are initially recognized at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. Changes in fair value are recognized immediately in the income statement.

3.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

3.15 Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.17 Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred taxation asset is realised or the deferred income tax liability is settled.

Deferred taxation assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.18 Employee benefits

(i) Employee leave entitlement

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual 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 recognized until the time of leave.

(ii) Retirement benefits

Group companies participate in various defined contribution retirement benefit schemes. A defined contribution plan is a retirement benefit scheme under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The schemes are generally funded through payments to insurance companies or state/trustee-administered funds. The Group pays contributions on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employment costs when they are due.

(iii) Bonus plans

The Group recognizes a liability and an expense for bonuses. It recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3.19 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognized when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Advance payments received from customers prior to delivery of goods and provision of services are recorded as receipts in advance.

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

3.21 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the period in which they are incurred.

3.22 Leases (as the lessee)

(a) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) Finance leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

3.23 *Contingent liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

3.24 *Dividend distribution*

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

4 FINANCIAL RISK MANAGEMENT

4.1 *Financial risk factors*

The Group's activities expose it to a variety of financial risks: commodities price risk, foreign exchange risk, credit risk, liquidity risk, and interest-rate risk.

Management regularly manages the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no major hedging activities are undertaken by management.

(a) *Commodities price risk*

Majority of the raw material used by the Group are yarn, dye and other chemical and are subject to market price risk. The Group has not used any hedging activities to hedge its exposure to market price risk.

(b) *Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar, United States dollar and Chinese Renminbi. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts.

(c) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. The carrying amount of trade receivables included in the balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

(d) Liquidity risk

The Group's primary cash requirements have been for payment of debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of funds generated from its operations and bank borrowings. The Group's policy is to maintain sufficient cash and cash equivalents to have available funding through committed credit facilities to meet its working capital requirements. The Directors believe that the Group has maintained sufficient general banking facilities for financing capital commitment in the near future and for working capital purposes.

(e) Cash flow interest rate risk

The Group's operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. These borrowings expose the Group to cash flow interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(f) Price risk

The Group has no significant investments that are classified as available-for-sale. The Directors believe that the Group's exposure to price risk is insignificant.

4.2 Fair value estimation

The carrying amounts of the Group's current financial assets, including cash and bank balances, trade and bills receivables and other receivables, and the Group's current financial liabilities, including trade and bills payables, other payables and borrowings, approximate their fair values due to their short maturities. The nominal value less estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial instruments traded in active markets, such as trading and available-for-sale securities is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying amounts of the Group's non-current liabilities, including long-term bank loans and loan from minority shareholder approximate their fair values as the impact of discounting is not significant.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements 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) Useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(b) Impairment of property, plant and equipment, leasehold land and land use rights

Property, plant and equipment, leasehold land and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

(c) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(d) Trade, bills and other receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

(e) Taxation

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates have been changed.

6 SEGMENT INFORMATION*(a) Analysis of sales by category*

Sales for the years ended March 31, 2004, 2005 and 2006 and for the eight months ended November 30, 2005 and 2006 represent principally manufacturing and trading of textile products.

(b) Primary reporting format – business segments

No business segment analysis is shown as more than 90% of the Group's principal activity is manufacture and trading of textile products.

(c) Secondary reporting format – geographical segments

The Group primarily operates in China and Hong Kong.

The Group's sales by geographical locations are determined by the final destination where the products are delivered:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	616,760	637,094	675,022	462,935	627,675
China	392,822	745,428	896,333	554,094	710,582
Sri Lanka	164,087	309,784	524,722	328,102	470,200
Vietnam	111,681	121,133	135,934	86,915	80,821
USA	99,706	146,148	125,985	90,151	95,134
Honduras	83,771	49,626	46,569	32,232	11,177
Macau	73,554	58,895	40,370	26,396	48,358
Jordan	64,989	131,452	159,559	116,417	129,367
Indonesia	56,520	88,087	134,109	73,166	156,641
Philippines	37,573	50,264	94,222	66,553	89,523
Others	564,358	584,929	530,204	350,051	467,599
	<u>2,265,821</u>	<u>2,922,840</u>	<u>3,363,029</u>	<u>2,187,012</u>	<u>2,887,077</u>

The Group's assets are located in the following geographical areas:

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
China	1,184,663	1,161,592	1,343,027	1,612,306
Hong Kong	585,803	648,167	705,440	813,102
Sri Lanka	—	219,764	241,945	264,439
Others	48,756	55,139	64,316	127,568
	<u>1,819,222</u>	<u>2,084,662</u>	<u>2,354,728</u>	<u>2,817,415</u>

The Group's capital expenditure, based on where the assets are located, is allocated as follows:

	Year ended March 31,			Eight months ended	
	2004	2005	2006	November 30,	
	HK\$'000	HK\$'000	HK\$'000	2005	2006
				(unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
China	258,605	220,337	234,841	160,482	292,353
Hong Kong	27,072	2,096	1,422	536	3,886
Sri Lanka	—	128,425	36,184	28,016	5,436
Others	104	40	163	17	243
	<u>285,781</u>	<u>350,898</u>	<u>272,610</u>	<u>189,051</u>	<u>301,918</u>

Capital expenditure comprising additions to property, plant and equipment (Note 8) including additions resulting from acquisitions through business combination (Note 8 and 34).

7 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Opening balances	16,754	20,489	21,527	21,775
Additions	4,260	—	330	—
Acquisition of a subsidiary (Note 34)	—	1,599	—	—
Amortisation	(525)	(561)	(390)	(354)
Currency translation differences	—	—	308	513
	<u>20,489</u>	<u>21,527</u>	<u>21,775</u>	<u>21,934</u>
	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
In Hong Kong held on:				
Leases of between 10 to 50 years	4,114	3,944	3,984	3,920
In China held on:				
Land use rights of between 10 to 50 years	16,375	15,996	15,918	16,171
In Sri Lanka held on:				
Leases of between 10 to 50 years	—	1,587	1,873	1,843
	<u>20,489</u>	<u>21,527</u>	<u>21,775</u>	<u>21,934</u>

Amortisation of prepaid operating lease payments for the years ended March 31, 2004, 2005 and 2006 and for the eight months ended November 30, 2005 and 2006 has been included in general and administrative expenses in the income statements.

8 PROPERTY, PLANT AND EQUIPMENT

	Leasehold property	Construction in progress	Leasehold improvements	Plant and machinery	Furniture and equipment	Motor vehicles and vessel	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At April 1, 2003							
Cost	131,052	65,913	3,011	426,518	36,306	7,693	670,493
Accumulated depreciation	(6,981)	—	(3,011)	(225,380)	(17,206)	(4,089)	(256,667)
Net book amount	<u>124,071</u>	<u>65,913</u>	<u>—</u>	<u>201,138</u>	<u>19,100</u>	<u>3,604</u>	<u>413,826</u>
Year ended March 31, 2004							
Opening net book amount	124,071	65,913	—	201,138	19,100	3,604	413,826
Additions	11,349	103,770	6,641	142,189	16,177	5,655	285,781
Disposals	—	—	—	(424)	—	(128)	(552)
Depreciation	(8,309)	—	(553)	(79,004)	(7,517)	(1,536)	(96,919)
Transfers	76,169	(100,001)	—	22,259	1,573	—	—
Closing net book amount	<u>203,280</u>	<u>69,682</u>	<u>6,088</u>	<u>286,158</u>	<u>29,333</u>	<u>7,595</u>	<u>602,136</u>
At March 31, 2004							
Cost	218,569	69,682	6,641	590,037	54,056	13,003	951,988
Accumulated depreciation	(15,289)	—	(553)	(303,879)	(24,723)	(5,408)	(349,852)
Net book amount	<u>203,280</u>	<u>69,682</u>	<u>6,088</u>	<u>286,158</u>	<u>29,333</u>	<u>7,595</u>	<u>602,136</u>
Year ended March 31, 2005							
Opening net book amount	203,280	69,682	6,088	286,158	29,333	7,595	602,136
Acquisition of a subsidiary (Note 34)	21,107	5,678	—	80,982	10,143	633	118,543
Additions	2,337	120,219	510	97,935	10,807	547	232,355
Disposals	(6,548)	—	—	(5,795)	(6)	—	(12,349)
Depreciation	(9,239)	—	(1,473)	(98,163)	(11,737)	(2,254)	(122,866)
Transfers	1,424	(23,640)	—	16,906	5,310	—	—
Closing net book amount	<u>212,361</u>	<u>171,939</u>	<u>5,125</u>	<u>378,023</u>	<u>43,850</u>	<u>6,521</u>	<u>817,819</u>
At March 31, 2005							
Cost	237,074	171,939	7,151	807,870	89,068	15,887	1,328,989
Accumulated depreciation	(24,713)	—	(2,026)	(429,847)	(45,218)	(9,366)	(511,170)
Net book amount	<u>212,361</u>	<u>171,939</u>	<u>5,125</u>	<u>378,023</u>	<u>43,850</u>	<u>6,521</u>	<u>817,819</u>
Year ended March 31, 2006							
Opening net book amount	212,361	171,939	5,125	378,023	43,850	6,521	817,819
Currency translation differences ..	3,483	3,026	—	5,782	525	39	12,855
Additions	1,117	144,884	—	113,160	11,742	1,707	272,610
Disposals	(14,813)	—	—	(5,238)	(59)	—	(20,110)
Depreciation	(9,877)	—	(1,430)	(133,789)	(18,103)	(2,612)	(165,811)
Transfers	98,533	(202,652)	—	94,999	9,120	—	—
Closing net book amount	<u>290,804</u>	<u>117,197</u>	<u>3,695</u>	<u>452,937</u>	<u>47,075</u>	<u>5,655</u>	<u>917,363</u>
At March 31, 2006							
Cost	322,371	117,197	7,151	1,023,165	110,812	17,552	1,598,248
Accumulated depreciation	(31,567)	—	(3,456)	(570,228)	(63,737)	(11,897)	(680,885)
Net book amount	<u>290,804</u>	<u>117,197</u>	<u>3,695</u>	<u>452,937</u>	<u>47,075</u>	<u>5,655</u>	<u>917,363</u>
Period ended November 30, 2006							
Opening net book amount	290,804	117,197	3,695	452,937	47,075	5,655	917,363
Currency translation differences ..	8,530	5,643	—	13,291	1,098	70	28,632
Additions	—	143,438	713	143,728	11,604	2,435	301,918
Disposals	—	—	—	(481)	—	—	(481)
Depreciation	(8,621)	—	(1,110)	(105,454)	(12,128)	(1,752)	(129,065)
Transfers	25,241	(22,564)	—	994	(3,749)	78	—
Closing net book amount	<u>315,954</u>	<u>243,714</u>	<u>3,298</u>	<u>505,015</u>	<u>43,900</u>	<u>6,486</u>	<u>1,118,367</u>
At November 30, 2006							
Cost	356,328	243,714	7,864	1,189,153	117,526	19,497	1,934,082
Accumulated depreciation	(40,374)	—	(4,566)	(684,138)	(73,626)	(13,011)	(815,715)
Net book amount	<u>315,954</u>	<u>243,714</u>	<u>3,298</u>	<u>505,015</u>	<u>43,900</u>	<u>6,486</u>	<u>1,118,367</u>

Depreciation expense recognized in the income statements is analysed as follows:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of sales	93,023	115,922	156,968	103,160	123,520
General and administrative expenses	3,896	6,944	8,843	6,125	5,545
	<u>96,919</u>	<u>122,866</u>	<u>165,811</u>	<u>109,285</u>	<u>129,065</u>

The carrying amount of property, plant and equipment pledged to secure bank facilities of the Group amounted to approximately HK\$Nil, HK\$93,750,000, HK\$97,591,000 and HK\$96,363,000 as at March 31, 2004, 2005 and 2006 and November 30, 2006, respectively.

Summary of property, plant and equipment held under finance leases are analysed as follows:

	As at March 31,			As at November 30,
	2004	2005	2006	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost — capitalised finance leases	199	450	873	2,568
Accumulated depreciation	(10)	(61)	(196)	(342)
Net book value	<u>189</u>	<u>389</u>	<u>677</u>	<u>2,226</u>
Depreciation for the year/period	<u>10</u>	<u>51</u>	<u>135</u>	<u>232</u>

9 GOODWILL

	HK\$'000
Year ended March 31, 2005	
Acquisition of a subsidiary (Note 34)	10,443
Closing net book amount	<u>10,443</u>
At March 31, 2005	
Cost and net book amount	<u>10,443</u>
Year ended March 31, 2006	
Opening net book amount	10,443
Goodwill write-off	(10,443)
Closing net book amount	<u>—</u>
At March 31, 2006	
Cost	10,443
Accumulated impairment	(10,443)
Net book amount	<u>—</u>
Period ended and at November 30, 2006	
Cost	10,443
Accumulated impairment	(10,443)
Net book amount	<u>—</u>

Impairment expense of HK\$10,443,000 for the year ended March 31, 2006 is included in administrative expenses in the income statement.

10 INVESTMENT IN SUBSIDIARIES

	As at March 31,		As at
	2005	2006	November 30,
	HK\$'000	HK\$'000	2006
Unlisted shares, at cost	—	—	—

A list of the principal subsidiaries is set out in Note 1.

11 INTEREST IN ASSOCIATES

Movements of share of net assets of associates are as follows:

	Year ended March 31,			Eight
	2004	2005	2006	months ended
	HK\$'000	HK\$'000	HK\$'000	November 30,
Beginning of the year/period	—	—	—	2006
Capital injection (Note)	—	—	10,296	HK\$'000
Currency translation differences	—	—	—	
Share of results				
– loss for the year/period	—	—	(272)	
End of the year/period	—	—	10,024	13,981

Note:

On September 19, 2005, the Group subscribed for a 33% equity interest in SPM Automotive Textile Co., Ltd. at a cash consideration of HK\$10,296,000. The other 67% equity interest are owned by independent third parties.

On May 25, 2006, the Group subscribed for a 50% equity interest in Fillattice-Pacific Ltd. at a cash consideration of HK\$1,950,000. The other 50% equity interest is owned by an independent third party.

During the period ended November 30, 2006, the Group injected further capital of HK\$2,574,000 in SPM Automotive Textile Co., Ltd..

The particulars of the associates are set out as follow:

<u>Name of subsidiary</u>	<u>Place and date of incorporation/ establishment</u>	<u>Issued and fully paid up share capital/ registered capital</u>	<u>Equity interest attributable to the Group</u>	<u>Principal activities and place of operations</u>
SPM Automotive Textile Co., Ltd.	Mainland China/ September 19, 2005	Registered/ paid up capital US\$5,000,000	33%	Manufacturing and trading of vehicles related textiles products
Fillattice-Pacific Ltd	Hong Kong/ May 25, 2006	HK\$3,900,000	50%	Trading of textiles products

The Group's share of assets, liabilities, commitments and results of interest in associates were as follows:

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Total assets	—	—	10,245	15,398
Total liabilities	—	—	221	1,417
Commitments	—	—	2,574	—

	Year ended March 31,			Eight months ended	
	2004	2005	2006	2005	2006
	HK\$'000	HK\$'000	HK\$'000	(unaudited)	HK\$'000
Revenue	—	—	—	—	1,242
Loss for the year/period	—	—	(272)	—	(886)

12 OTHER INVESTMENTS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended March 31,			Eight
	2004	2005	2006	months ended
	HK\$'000	HK\$'000	HK\$'000	November 30,
				2006
				HK\$'000
Other investments				
Beginning of the year/period	997	1,804	—	—
Additions	820	—	—	—
Write-down of investments	(13)	(24)	—	—
End of the year/period	1,804	1,780	—	—
Trading securities listed in Hong Kong	59	35	—	—
Club debentures	1,745	1,745	—	—
	1,804	1,780	—	—
Available-for-sale financial assets				
Beginning of the year/period	—	—	1,780	1,830
Additions	—	—	50	263
End of the year/period	—	—	1,830	2,093
Trading securities listed in Hong Kong,				
at fair value	—	—	85	72
Club debentures, at fair value	—	—	1,745	2,021
	—	—	1,830	2,093

13 INVENTORIES

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Raw materials	451,136	339,792	469,055	517,829
Work in progress	55,898	62,888	88,368	94,742
Finished goods	96,729	95,223	101,520	128,600
Consumables	12,733	32,838	30,957	25,156
	<u>616,496</u>	<u>530,741</u>	<u>689,900</u>	<u>766,327</u>

The cost of inventories recognized as expense and included in cost of sales during the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2005 and 2006 amounted to HK\$1,628,508,000, HK\$2,283,379,000, HK\$2,560,773,000, HK\$1,660,654,000 and HK\$2,222,519,000 respectively.

Inventories carried at net realisable value as at March 31, 2004, 2005 and 2006 and November 30, 2006 amounted to approximately HK\$14,001,000, HK\$30,889,000, HK\$Nil and HK\$Nil respectively.

Inventories pledged as security for the banking facilities available to the Group as at March 31, 2004, 2005 and 2006 and November 30, 2006 amounted to approximately HK\$Nil, HK\$70,200,000, HK\$70,200,000 and HK\$78,000,000 respectively.

14 TRADE AND BILLS RECEIVABLES

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Trade receivables	382,297	389,967	471,802	564,175
Bills receivables	79,004	79,300	122,143	184,639
	<u>461,301</u>	<u>469,267</u>	<u>593,945</u>	<u>748,814</u>
Less: provision for impairment of trade receivables	(29,580)	(22,772)	(33,730)	(22,012)
	<u>431,721</u>	<u>446,495</u>	<u>560,215</u>	<u>726,802</u>

The carrying amounts of trade and bills receivables approximate their fair values.

The Group has recognized a loss of HK\$4,507,000, HK\$1,798,000, HK\$6,567,000, HK\$4,818,000 and HK\$1,642,000 for the impairment of its trade receivables during the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2005 and 2006, respectively. The loss has been included in general and administrative expenses in the income statements.

The Group has provided for/(reversed) provision for impairment of trade receivables of approximately HK\$22,632,000, HK\$(6,808,000), HK\$10,958,000, HK\$3,775,000 and HK\$(11,718,000) during the years ended March 31, 2004, 2005, 2006 and the eight months ended November 30, 2005 and 2006, respectively in the income statements.

Majority of the Group's sales are with credit terms of 30 to 60 days. The ageing analysis of the trade and bills receivables were as follows:

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
0-60 days	334,399	316,938	482,470	627,594
61-120 days	87,549	120,835	88,616	95,297
Over 120 days	39,353	31,494	22,859	25,923
	<u>461,301</u>	<u>469,267</u>	<u>593,945</u>	<u>748,814</u>

15 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Rental, utility and other deposits	231	424	366	464
Prepayments	1,785	6,042	5,319	8,492
Prepaid tax	9,721	5,051	—	—
Tax recoverable	22,689	14,935	10,263	13,193
Insurance claims recoverable	—	10,000	—	—
Other receivables	226	737	865	1,413
	<u>34,652</u>	<u>37,189</u>	<u>16,813</u>	<u>23,562</u>

The carrying amounts of deposits, prepayments and other receivables approximate their fair values.

The Group has recognized a loss of HK\$Nil, HK\$7,898,000, HK\$6,591,000, HK\$5,102,000 and HK\$2,453,000 for the impairment of its other receivables during the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2005 and 2006, respectively. The loss has been included in general and administrative expenses in the income statements.

16 CASH AND BANK BALANCES

(a) Group

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Cash at bank and on hand	76,764	212,274	78,235	111,885
Short-term bank deposits	140	3,544	52,803	23,972
	<u>76,904</u>	<u>215,818</u>	<u>131,038</u>	<u>135,857</u>

The effective interest rate on short-term bank deposits was 1.5%, 0.5%, 3.5% and 4% for the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2006, respectively; these deposits have an average maturity of 3 days, 7 days, 15 days and 4 days at March 31, 2004, 2005 and 2006 and November 30, 2006 respectively.

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Cash and bank balances were denominated in the following currencies:

	As at March 31,			As at November 30,
	2004	2005	2006	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong Dollar	32,522	94,564	75,189	52,515
Chinese Renminbi ("RMB")	32,691	27,856	15,045	17,085
US Dollar	11,587	92,820	36,948	61,813
Others	104	578	3,856	4,444
	<u>76,904</u>	<u>215,818</u>	<u>131,038</u>	<u>135,857</u>

The Group's cash and cash equivalents denominated in RMB are deposited with banks in Mainland China. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the Mainland China Government.

(b) *Company*

	As at March 31,		As at November 30,
	2005	2006	2006
	HK\$'000	HK\$'000	HK\$'000
Cash at bank and on hand	<u>62,009</u>	<u>123</u>	<u>61</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Cash and bank balances were denominated in the following currencies:

	As at March 31,		As at November 30,
	2005	2006	2006
	HK\$'000	HK\$'000	HK\$'000
Hong Kong Dollar	62,008	115	26
US Dollar	1	8	35
	<u>62,009</u>	<u>123</u>	<u>61</u>

17 SHARE CAPITAL

	As at March 31,		As at November 30,
	2005	2006	2006
	HK\$'000	HK\$'000	HK\$'000
<i>Authorized:</i>			
50,000,000 ordinary shares of HK\$0.001 each	<u>50</u>	<u>50</u>	<u>50</u>
<i>Issued and fully paid:</i>			
10,747,020 ordinary shares of HK\$0.001 each	<u>11</u>	<u>11</u>	<u>11</u>

Pursuant to the Reorganisation, the paid in share capital at March 31, 2004 represents the nominal value of the share capital comprising the Group.

The Company was incorporated in the Cayman Islands on October 12, 2004 and therefore there was no issued share capital as at March 31, 2004.

- (a) The Company was incorporated in the Cayman Islands on October 12, 2004 with an authorized share capital of US\$50,000, divided into 50,000,000 shares of US\$0.001 each. On the date of incorporation, 2 shares were issued at par for cash.
- (b) Pursuant to a shareholders' resolution passed on November 1, 2004, the Company's authorized share capital was increased by HK\$50,000 by the creation of 50,000,000 shares of HK\$0.001 each. 16 shares of HK\$0.001 each were issued at a price of HK\$10 per share for cash. The 2 shares of US\$0.001 each issued at incorporation were repurchased by the Company at par. Pursuant to a special resolution of shareholders passed on the same date, authorized share capital of US\$50,000 divided into 50,000,000 shares of US\$0.001 each were cancelled.
- (c) On November 3, 2004, 9,269,984 shares were allotted and issued at approximately HK\$92,700,000 for cash.
- (d) On November 16, 2004, 1,030,000 shares were allotted and issued in exchange for 10,300,000 shares of HK\$1 each of a subsidiary pursuant to the Reorganisation.
- (e) On December 14, 2004, 1,236,000 shares were allotted and issued at approximately HK\$233,982,000 for cash. On the same date, the Company repurchased 788,980 shares at an aggregate price of approximately HK\$149,358,000.
- (f) On April 27, 2007, the Company's authorized share capital was increased by HK\$4,950,000 by the creation of 4,950,000,000 shares of HK\$0.001 each.
- (g) On April 27, 2007, the Company's share option scheme was approved by the board of directors. The board of directors may, under the share option scheme, grant options to employees, directors or non-executive directors of the Group. No options have been granted up to the date of this report.

18 RESERVES

(a) Group

	Share premium	Capital reserves (note (i))	Legal reserve (note (ii))	Statutory reserves (note (iii))	Foreign currency translation reserves	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At April 1, 2003	—	11,299	—	—	2,141	797,391	810,831
Profit attributable to equity holders of the Company	—	—	—	—	—	307,299	307,299
Transfer to statutory reserves ..	—	—	—	666	—	(666)	—
At March 31, 2004	—	11,299	—	666	2,141	1,104,024	1,118,130
Issuance of new shares	326,671	—	—	—	—	—	326,671
Profit attributable to equity holders of the Company	—	—	—	—	—	351,679	351,679
Repurchase of shares	(149,357)	—	—	—	—	—	(149,357)
Transfer to legal reserves	—	—	500	—	—	(500)	—
Transfer to statutory reserves ..	—	—	—	4,029	—	(4,029)	—
Dividends	—	—	—	—	—	(127,720)	(127,720)
At March 31, 2005	177,314	11,299	500	4,695	2,141	1,323,454	1,519,403
Profit attributable to equity holders of the Company	—	—	—	—	—	458,855	458,855
Transfer to statutory reserves ..	—	—	—	9,604	—	(9,604)	—
Currency translation differences	—	—	—	—	7,432	—	7,432
Dividends	—	—	—	—	—	(941,205)	(941,205)
At March 31, 2006	177,314	11,299	500	14,299	9,573	831,500	1,044,485
Profit attributable to equity holders of the Company	—	—	—	—	—	397,612	397,612
Currency translation differences:							
– Group	—	—	—	—	43,281	—	43,281
– Associates	—	—	—	—	319	—	319
Dividends	—	—	—	—	—	(234,000)	(234,000)
At November 30, 2006	177,314	11,299	500	14,299	53,173	995,112	1,251,697

(b) Company

	Share premium	Capital reserves (note (i))	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Issuance of shares relating to the Reorganisation (Note (i))	—	10,299	—	10,299
Issuance of shares	326,672	—	—	326,672
Profit for the year	—	—	211	211
Repurchase of shares	(149,358)	—	—	(149,358)
As at March 31, 2005 and April 1, 2005	177,314	10,299	211	187,824
Profit for the year	—	—	942,536	942,536
Dividends	—	—	(941,205)	(941,205)
As at March 31, 2006 and April 1, 2006	177,314	10,299	1,542	189,155
Profit for the period	—	—	234,015	234,015
Dividends	—	—	(234,000)	(234,000)
As at November 30, 2006	177,314	10,299	1,557	189,170

Notes:

- (i) Capital reserves represent the difference between the nominal value of shares of subsidiaries acquired pursuant to the Reorganisation (Note 1) over the nominal value of the share capital of the Company issued in exchange thereof.
- (ii) In accordance with relevant Macao Commercial Code, the subsidiary incorporated in Macao, Pacific Overseas Textiles Macao Commercial Offshare Limited, is required to set aside a minimum of 25% of its profit after taxation to legal reserve until the balance of this reserve reaches a level equivalent to 50% of its capital. As at March 31, 2005, the appropriation to legal reserve of the subsidiary has reached 50% of its capital.
- (iii) As stipulated by regulations in Mainland China, the Company's subsidiary established and operated in Mainland China is required to appropriate a portion of their after-tax profit (after offsetting prior year losses) to statutory reserves at rates of 10%. The statutory reserves are non-distributable.

19 BORROWINGS

Borrowings are analysed as follows:

	As at March 31,			As at November 30,
	2004	2005	2006	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank and other borrowings (Note (a))	297,639	168,112	717,560	879,018
Finance lease obligations (Note (b))	178	319	499	1,804
	297,817	168,431	718,059	880,822

(a) Bank and other borrowings

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
				HK\$'000
Non-current				
Long-term bank loans — secured	—	52,402	33,402	39,196
Long-term bank loans — unsecured	50,000	25,000	546,000	722,280
Loan from a minority shareholder (Note)	—	29,046	11,496	11,496
	50,000	106,448	590,898	772,972
Less: current portion of long term bank loans ...	(25,000)	(25,000)	(121,212)	(252,159)
	25,000	81,448	469,686	520,813
Current				
Current portion of long-term bank loans				
— secured	—	—	—	19,719
Current portion of long-term bank loans				
— unsecured	25,000	25,000	121,212	232,440
Short-term bank loans — secured	—	42,500	59,235	56,016
Short-term bank loans — unsecured	247,639	—	30,000	20,000
Bank overdrafts — secured	—	17,216	10,504	21,790
Bank overdrafts — unsecured	—	1,948	26,923	8,240
	272,639	86,664	247,874	358,205
Total borrowings	297,639	168,112	717,560	879,018

Note: Loan from Linea Clothing (Private) Limited, 48% minority shareholder of Textile Jersey Lanka (Private) Limited, is unsecured, interest-free and has no fixed repayment terms.

The carrying amounts of borrowings are denominated in the following currencies:

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
				HK\$'000
Hong Kong Dollar	296,250	26,948	602,922	750,520
US Dollar	1,389	134,885	109,265	123,903
Sri Lanka Rupee	—	6,279	5,373	4,595
	297,639	168,112	717,560	879,018

The effective interest rates (per annum) at the balance sheet date were as follows:

	As at March 31,						As at November 30,					
	2004			2005			2006			2006		
	HK\$	US\$	LKR	HK\$	US\$	LKR	HK\$	US\$	LKR	HK\$	US\$	LKR
Bank overdrafts	7%-8%	7%	—	5%-6%	4.5%	—	7%-8%	6.5%	—	7%-8%	8.3%	—
Bank loans	0.75%	—	—	1%	4.5%	8.5%	5%	6.5%	8.5%	5%	6.5%	8.5%
Other loans	—	—	—	—	0%	—	—	0%	—	—	0%	—

The carrying amounts of all bank borrowings approximate their fair values, as the impact of discounting is not significant.

Bank overdrafts and loans are being charged interest at floating rates between HIBOR + 1% and HIBOR + 4% per annum.

The maturity of the borrowings is as follows:

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Wholly repayable within 5 years	297,639	166,193	717,560	879,018
Not wholly repayable within 5 years	—	1,919	—	—
	<u>297,639</u>	<u>168,112</u>	<u>717,560</u>	<u>879,018</u>

The borrowings are repayable as follows:

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Within 1 year	272,639	86,664	247,874	358,205
Between 1 and 2 years	25,000	36,745	182,976	322,897
Between 2 and 5 years	—	42,784	286,710	197,916
Over 5 years	—	1,919	—	—
	<u>297,639</u>	<u>168,112</u>	<u>717,560</u>	<u>879,018</u>

(b) Finance lease obligations

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Finance lease liabilities — minimum lease payments:				
– Not later than 1 year	74	169	304	987
– Later than 1 year and not later than 5 years	124	192	253	1,072
	198	361	557	2,059
Future finance charges on finance leases	(20)	(42)	(58)	(255)
Present value of finance lease obligations	<u>178</u>	<u>319</u>	<u>499</u>	<u>1,804</u>
The present value of finance lease liabilities is as follows:				
– Not later than 1 year	62	143	267	825
– Later than 1 year and not later than 5 years	116	176	232	979
	<u>178</u>	<u>319</u>	<u>499</u>	<u>1,804</u>

20 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable tax rates which is expected to apply at the time of reversal of the temporary differences.

The movement in the deferred taxation account is as follows:

	Year ended March 31,			Eight months ended
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Beginning of the year/period	(110)	(1,660)	2,850	5,300
Recognized in the income statements (Note 28)	(1,550)	4,510	2,450	1,660
End of the year/period	(1,660)	2,850	5,300	6,960

The movement in deferred tax assets and liabilities during the years/period without taking into consideration of the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities

	Accelerated tax depreciation
	HK\$'000
At April 1, 2003	(540)
Recognized in the income statement	(1,490)
At March 31, 2004	(2,030)
Recognized in the income statement	470
At March 31, 2005	(1,560)
Recognized in the income statement	1,340
At March 31, 2006	(220)
Recognized in the income statement	(80)
At November 30, 2006	(300)

Deferred tax assets

	Provision
	HK\$'000
At April 1, 2003	430
Recognized in the income statement	(60)
At March 31, 2004	370
Recognized in the income statement	4,040
At March 31, 2005	4,410
Recognized in the income statement	1,110
At March 31, 2006	5,520
Recognized in the income statement	1,740
At November 30, 2006	7,260

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Deferred tax assets:				HK\$'000
– Deferred tax assets to be recovered				
after 12 months	370	4,410	5,520	7,260
Deferred tax liabilities:				
– Deferred tax liabilities to be settled				
after 12 months	(2,030)	(1,560)	(220)	(300)
Net deferred tax (liabilities)/assets	(1,660)	2,850	5,300	6,960

21 TRADE AND BILLS PAYABLES

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Trade payables	165,795	225,816	241,220	241,555
Bills payables	195,945	96,486	178,059	160,996
	361,740	322,302	419,279	402,551

Trade and bills payables approximate their fair value.

The credit period granted by the creditors generally ranges from 30 to 60 days.

The ageing analysis of the trade and bills payables were as follows:

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
0–60 days	292,987	233,303	352,221	325,238
61–120 days	63,286	72,218	58,802	66,209
Over 120 days	5,467	16,781	8,256	11,104
	361,740	322,302	419,279	402,551

22 ACCRUALS AND OTHER PAYABLES

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Accruals for other operating expenses	22,313	35,386	40,203	52,658
Provision for staff welfare and other related costs	10,559	13,574	47,411	80,935
Provision for bonus	956	1,500	3,500	21,799
Provision for loan interest	—	—	94	7,600
Other payables	850	331	868	727
	<u>34,678</u>	<u>50,791</u>	<u>92,076</u>	<u>163,719</u>

23 DERIVATIVE FINANCIAL INSTRUMENTS

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Forward foreign exchange contracts — held for trading				
– Assets	—	—	470	1,532
– Liabilities	—	—	489	2,039
	<u>—</u>	<u>—</u>	<u>959</u>	<u>3,571</u>

24 OTHER REVENUE

	Year ended March 31,			Eight months ended	
	2004	2005	2006	2005	2006
	HK\$'000	HK\$'000	HK\$'000	(unaudited)	2006
Sub-contracting income	11,881	14,583	12,379	9,285	11,138
Sale of residual materials	7,921	18,920	19,202	12,644	16,157
Waiver of a loan from Textured Jersey UK Limited, an ex-shareholder of Textured Jersey Lanka (Private) Limited	—	—	11,496	—	—
Interest income	345	621	5,852	4,133	2,596
Dividend income from listed investment	5	1	2	2	8
	<u>20,152</u>	<u>34,125</u>	<u>48,931</u>	<u>26,064</u>	<u>29,899</u>

25 EXPENSES BY NATURE

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of property, plant and equipment (Note 8)	96,919	122,866	165,811	109,285	129,065
Amortisation of leasehold land and land use rights (Note 7)	525	561	390	394	354
Change in inventories	(327,209)	85,755	(159,159)	(50,668)	(76,427)
Production costs	1,955,717	2,197,624	2,719,932	1,711,322	2,298,946
Provision for/(reversal of) bad and doubtful debts	22,632	(6,808)	10,958	3,775	(11,718)
Write-off of bad and doubtful debts	4,507	1,798	6,567	4,818	1,642
Impairment of other receivables (Note 15)	—	7,898	6,591	5,102	2,453
Employment costs (Note 26)	161,836	189,280	226,611	148,906	210,895
Operating lease rental of land and buildings	2,044	2,220	2,207	1,529	1,677
Loss on disposal of property, plant and equipment (Note 31(b))	53	12,266	19,030	9,472	476
Provision for slow-moving and obsolete inventories	—	8,670	—	—	12,839
Goodwill write-off	—	—	10,443	10,443	—
Net exchange (gains)/losses	(1,034)	21	(16,471)	(16,538)	(1,288)
Auditors' remuneration	1,101	1,484	1,519	934	939

26 EMPLOYMENT COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Wages, salaries, bonus and allowances	145,954	168,124	189,748	120,709	160,788
Provision for long-service payment	227	122	379	249	281
Retirement benefit — defined contribution schemes (Note (a))	3,819	4,862	6,949	4,326	4,950
Staff welfare and benefits	11,836	16,172	29,535	23,622	44,876
	161,836	189,280	226,611	148,906	210,895

(a) Retirement benefit costs — defined contribution schemes

The Company's subsidiary in Mainland China is a member of the state-managed retirement benefits scheme operated by the Government of Mainland China. The Group contributes a certain percentage of the basic salaries of the subsidiary's employees, and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-managed retirement plans are responsible for the entire pension obligations payable to the retired employees.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions are subject to a cap of HK\$1,000 per month and thereafter contributions are voluntary.

The Group has arranged for its Sri Lanka employees to join the Employees' Provident Fund ("EPF") and Employees' Trust Fund ("ETF"). Under these defined contribution plans, the Group contributes 12% and 3% of the employees' monthly gross emoluments to the EPF and ETF, respectively.

(b) *Directors' emoluments*

The remuneration of every director of the Company for the year ended March 31, 2004 is set out below:

Name of director	Fees	Salaries	Discretionary bonuses	Housing allowances	Employer's contribution to retirement schemes	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ip Ping Im	—	6,686	—	—	—	6,686
Choi Kin Chung	—	—	—	—	—	—
Wan Wai Loi	—	3,629	—	—	12	3,641
Tsang Kang Po	—	3,476	—	—	12	3,488
Lam Wing Tak	—	4,163	—	—	12	4,175
Lam King Man	—	2,539	—	—	12	2,551
	—	20,493	—	—	48	20,541

The remuneration of every director of the Company for the year ended March 31, 2005 is set out below:

Name of director	Fees	Salaries	Discretionary bonuses	Housing allowances	Employer's contribution to retirement schemes	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ip Ping Im	—	5,588	—	—	—	5,588
Choi Kin Chung	—	—	—	—	—	—
Wan Wai Loi	—	4,594	—	—	12	4,606
Tsang Kang Po	—	4,106	—	—	12	4,118
Lam Wing Tak	—	4,236	—	—	12	4,248
Lam King Man	—	2,600	—	—	12	2,612
Ho Hsiang Ming, James	—	—	—	—	—	—
	—	21,124	—	—	48	21,172

The remuneration of every director of the Company for the year ended March 31, 2006 is set out below:

Name of director	Fees	Salaries	Discretionary bonuses	Housing allowances	Employer's contribution to retirement schemes	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ip Ping Im	—	—	—	—	—	—
Choi Kin Chung	—	—	—	—	—	—
Wan Wai Loi	1,500	1,670	—	—	12	3,182
Tsang Kang Po	1,000	1,574	—	—	12	2,586
Lam Wing Tak	1,000	1,825	—	—	12	2,837
Lam King Man	1,000	1,284	—	—	12	2,296
Ho Hsiang Ming, James	—	—	—	—	—	—
	4,500	6,353	—	—	48	10,901

The remuneration of every director of the Company for the eight months ended November 30, 2005 is set out below:

Name of director	Fees	Salaries	Discretionary bonuses	Housing allowances	Employer's contribution to retirement schemes	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ip Ping Im	—	—	—	—	—	—
Choi Kin Chung	—	—	—	—	—	—
Wan Wai Loi	1,000	1,114	—	—	8	2,122
Tsang Kang Po	667	978	—	—	8	1,653
Lam Wing Tak	667	1,179	—	—	8	1,854
Lam King Man	666	842	—	—	8	1,516
Ho Hsiang Ming, James	—	—	—	—	—	—
	<u>3,000</u>	<u>4,113</u>	<u>—</u>	<u>—</u>	<u>32</u>	<u>7,145</u>

The remuneration of every director of the Company for the eight months ended November 30, 2006 is set out below:

Name of director	Fees	Salaries	Discretionary bonuses	Housing allowances	Employer's contribution to retirement schemes	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ip Ping Im	—	—	—	—	—	—
Choi Kin Chung	—	—	—	—	—	—
Wan Wai Loi	1,000	1,860	2,443	—	8	5,311
Tsang Kang Po	667	1,932	2,341	—	8	4,948
Lam Wing Tak	667	1,933	2,287	—	8	4,895
Lam King Man	666	1,081	1,252	—	8	3,007
Ho Hsiang Ming, James	—	—	—	—	—	—
	<u>3,000</u>	<u>6,806</u>	<u>8,323</u>	<u>—</u>	<u>32</u>	<u>18,161</u>

During the Relevant Periods, no director of the Company (i) received any emolument from the Group as an inducement to join or upon joining the Group; or (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments.

(c) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group include 5 directors, 4 directors, 3 directors, 2 directors and 4 directors for the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2005 and 2006, respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining Nil individual, 1 individual, 2 individuals, 3 individuals and 1 individual for the years ended March 31, 2004, 2005 and 2006 and for the eight months ended November 30, 2005 and 2006, respectively, are as follows:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Basic salaries, housing allowances and other allowances	—	2,493	3,720	3,200	1,426
Discretionary bonuses	—	367	2,740	2,823	783
Retirement benefit — defined contribution schemes	—	12	24	24	8
	<u>—</u>	<u>2,872</u>	<u>6,484</u>	<u>6,047</u>	<u>2,217</u>

The emoluments of non-directors fell within the following bands:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$1,500,001–HK\$2,000,000	—	—	—	1	—
HK\$2,000,001–HK\$2,500,000	—	—	—	2	1
HK\$2,500,001–HK\$3,000,000	—	1	—	—	—
HK\$3,000,001–HK\$3,500,000	—	—	2	—	—
	—	1	2	3	1

27 FINANCE COSTS

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest expense:					
– bank loans and overdrafts	1,444	4,513	7,366	4,123	28,968
– finance lease obligations	16	12	38	16	44
	1,460	4,525	7,404	4,139	29,012

28 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% for the years ended March 31, 2004, 2005 and 2006 and the eight months ended November 30, 2005 and 2006 on the estimated assessable profits for the respective years/periods.

The subsidiary established in Mainland China as a wholly-owned foreign enterprise is entitled to full exemption from enterprise income tax for the first two years and 50% reduction in enterprise income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from previous years. Thereafter the subsidiary is entitled to a 50% reduction in enterprise income tax in accordance with the applicable tax regulations. The subsidiary established and operated in Mainland China is subject to enterprise income tax at rate of 12%, after the 50% reduction, for the years ended March 31, 2004, 2005 and 2006 and for the eight months ended November 30, 2005 and 2006.

The subsidiary established and operated in Sri Lanka, Textured Jersey Lanka (Private) Limited, is exempted from income tax on its profits for a period of 12 years from the first year of commencement of commercial operations in September 2001.

The amounts of taxation charged to the consolidated income statements represent:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current taxation					
– Hong Kong profits tax	63,140	44,550	65,819	45,180	41,766
– Mainland China income tax	996	13,285	16,664	9,325	19,784
Under/(over) provision	7,586	2,608	(1,158)	(1,158)	(288)
Deferred taxation (Note 20)	1,550	(4,510)	(2,450)	(2,020)	(1,660)
	<u>73,272</u>	<u>55,933</u>	<u>78,875</u>	<u>51,327</u>	<u>59,602</u>

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the group companies as follows:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before income tax	<u>380,571</u>	<u>406,357</u>	<u>548,225</u>	<u>362,031</u>	<u>462,264</u>
Tax calculated at weighted average domestic tax rates applicable to profits in the respective places/countries	59,114	58,153	79,698	54,957	53,268
Income not subject to tax ⁽¹⁾	(302)	(51)	(3,420)	(3,306)	(728)
Expenses not deductible for tax purposes ⁽²⁾	6,372	337	3,850	933	7,054
Deferred taxation not recognized in prior years ...	—	(5,112)	—	—	—
Under/(over) provision in prior years/periods	7,586	2,608	(1,158)	(1,158)	(288)
Others	502	(2)	(95)	(99)	296
Tax expense	<u>73,272</u>	<u>55,933</u>	<u>78,875</u>	<u>51,327</u>	<u>59,602</u>

Notes:

- (1) Tax effect of income not subject to tax mainly represents exchange gains and interest income which are not assessable under the relevant tax jurisdictions.
- (2) Tax effect of expenses not deductible for tax purposes mainly represents loan interest on syndicated loan and provision of bonus payment which are non-deductible under the relevant tax jurisdictions.

The weighted average applicable tax rates were:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Weighted average domestic applicable tax rates	<u>15.5%</u>	<u>14.3%</u>	<u>14.5%</u>	<u>15.2%</u>	<u>11.5%</u>

The change in weighted average applicable tax rates above is mainly caused by a change in mix of profit earned in different tax jurisdictions while there were no significant changes in the respective tax rates.

29 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit attributable to equity holders of the Company	307,299	351,679	458,855	308,344	397,612
Weighted average number of ordinary shares in issue (thousands)	1,030	4,937	10,747	10,747	10,747
Basic earnings per share (HK\$ per share)	298.35	71.23	42.70	28.69	37.00

(b) Diluted

No diluted earnings per share have been presented as the Company does not have any dilutive potential ordinary shares.

30 DIVIDENDS

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Dividends paid by companies comprising the Group to its then shareholders prior to Reorganisation	—	127,720	—	—	—
Dividends declared and paid by the Company	—	—	941,205	161,205	234,000
	—	127,720	941,205	161,205	234,000

On April 26, 2007, the board of directors of the Company declared a special dividend of HK\$780 million payable to the existing shareholders.

31 CONSOLIDATED CASH FLOW STATEMENTS

(a) Cash generated from operations

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before income tax	380,571	406,357	548,225	362,031	462,264
Adjustments for:					
Share of loss of associates	—	—	272	—	886
Depreciation of property, plant and equipment (Note 8)	96,919	122,866	165,811	109,285	129,065
Amortisation of leasehold land and land use rights (Note 7)	525	561	390	394	354
Loss on disposal of property, plant and equipment (Note 31(b))	53	12,266	19,030	9,472	476
Interest income (Note 24)	(345)	(621)	(5,852)	(4,133)	(2,596)
Interest expense (Note 27)	1,460	4,525	7,404	4,139	29,012
Dividend income	(5)	(1)	(2)	(2)	(8)
Write-off of goodwill	—	—	10,443	10,443	—
Unrealised loss on trading securities	13	24	—	—	—
Operating profit before working capital changes	479,191	545,977	745,721	491,629	619,453
(Increase)/decrease in inventories	(327,209)	124,756	(159,159)	(50,668)	(76,427)
(Increase)/decrease in trade and bills receivables	(129,183)	8,563	(113,720)	(138,441)	(166,587)
Increase in derivative financial instruments — assets	—	—	(470)	—	(1,062)
Increase in derivative financial instruments — liabilities	—	—	489	—	1,550
Decrease/(increase) in deposits, prepayments and other receivables	12,944	(2,448)	15,325	(6,168)	(6,749)
(Decrease)/increase in amount due to a minority shareholder	—	(180)	—	206	—
Increase in amount due from shareholders	(35,020)	—	—	—	—
Increase/(decrease) in trade and bills payables	173,090	(63,055)	96,977	88,623	(16,728)
Increase/(decrease) in accruals and other payables	19,530	(10,974)	30,567	47,698	71,643
Cash generated from operations	<u>193,343</u>	<u>602,639</u>	<u>615,730</u>	<u>432,879</u>	<u>425,093</u>

(b) In the cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005 (unaudited)	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net book amount (Note 8)	552	12,349	20,110	9,486	481
Loss on disposal of property, plant and equipment	(53)	(12,266)	(19,030)	(9,472)	(476)
Proceeds from disposal of property, plant and equipment	499	83	1,080	14	5

(c) *Significant non-cash transactions*

During the year ended March 31, 2004, 2005 and 2006, and the eight months ended November 30, 2005 and 2006, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately HK\$199,000, HK\$251,000, HK\$423,000, HK\$317,000 and HK\$1,871,000 respectively.

During the year ended March 31, 2005, part of the consideration for the acquisition of a subsidiary during the year was satisfied by an amount due to minority shareholder amounting to HK\$7,800,000. Dividend declared by a subsidiary amounting to HK\$35,020,000 to its then shareholders prior to the Reorganisation was settled through current accounts with these shareholders.

32 CONTINGENT LIABILITIES

As at March 31, 2004, 2005 and 2006 and November 30, 2006, the Group had no material contingent liabilities.

33 COMMITMENTS

(a) *Capital commitments*

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	As at March 31,			As at November 30,
	2004	2005	2006	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment Contracted but not provided for	44,421	48,620	69,317	75,359

(b) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases of land and buildings, as follows:

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
				HK\$'000
Not later than 1 year	99	1,076	265	797
Later than 1 year and not later than 5 years	28	177	—	1,072
	<u>127</u>	<u>1,253</u>	<u>265</u>	<u>1,869</u>

34 BUSINESS COMBINATION

In November 2004, the Group acquired 52% equity interest in Textured Jersey Lanka (Private) Limited, a textiles manufacturer operating in Sri Lanka at a consideration of HK\$16,380,000.

Details of net assets acquired and excess of acquired interest over cost are as follows:

	HK\$'000
Purchase consideration	16,380
Fair value of net assets — shown as below	(5,937)
Goodwill (Note 9)	<u>10,443</u>

The goodwill is attributable to the potential value from Textured Jersey Lanka (Private) Limited's established distributor network and channels and the significant synergies expected to arise after the Group's acquisition of Textured Jersey Lanka (Private) Limited.

The fair values of the assets and liabilities arising from the acquisition approximate their carrying amounts and are as follows:

	HK\$'000
Leasehold land and land use rights	1,599
Property, plant and equipment	118,543
Inventories	39,001
Trade and bills receivables	23,337
Deposits, prepayments and other receivables	4,759
Amounts due from a minority shareholder	26
Cash and cash equivalents	9,620
Trade payables	(23,617)
Accruals and other payables	(27,087)
Bank overdrafts — secured	(11,959)
Short-term bank loans — secured	(24,926)
Long-term bank loans — secured	(76,634)
Loan from a minority shareholder	(21,246)
Minority shareholder's interests	(5,479)
	<u>5,937</u>
Goodwill	<u>10,443</u>
	<u>16,380</u>

HK\$'000

Satisfied by:

Amount due to minority shareholder	7,800
Cash	8,580
	<u>16,380</u>
Purchase consideration settled in cash	8,580
Cash and cash equivalents in the subsidiary acquired	(9,620)
Bank overdrafts in the subsidiary acquired	11,959
Cash outflow on acquisition	<u>10,919</u>

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over 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.

The following transactions were carried out with related parties:

(a) Sales of goods

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005	2006
Continuing	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
A minority shareholder and its related parties (Note (i))	—	74,334	324,346	215,802	218,788
A related party (Note (ii))	10,450	29,679	15,335	9,830	11,158
	<u>10,450</u>	<u>104,013</u>	<u>339,681</u>	<u>225,632</u>	<u>229,946</u>

Goods are sold at prices mutually agreed by both parties.

(b) Management charges

	Year ended March 31,			Eight months ended November 30,	
	2004	2005	2006	2005	2006
Continuing	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
A minority shareholder and its related parties (Note (i))	—	145	442	295	288
	<u>—</u>	<u>145</u>	<u>442</u>	<u>295</u>	<u>288</u>

- (c) Year-end balances (included in trade receivables and trade payables) arising from sales/purchases of goods:

	As at March 31,			As at
	2004	2005	2006	November 30,
	HK\$'000	HK\$'000	HK\$'000	2006
Receivables from related parties:				
A minority shareholder and its related parties (Note (i))	—	23,234	39,171	36,813
A related party (Note (ii))	3,732	2,897	4,874	2,385
	<u>3,732</u>	<u>26,131</u>	<u>44,045</u>	<u>39,198</u>
Payables to related parties:				
A minority shareholder (Note (i))	—	2,802	2,437	1,945

Notes:

- (i) Linea Clothing (Private) Limited is a minority interest shareholder, with 48% equity interest, of Textured Jersey Lanka (Private) Limited. Its related parties include its holding company and fellow subsidiaries.
- (ii) Companies controlled by Mr. Henry Choi Wing Kong, son of Mr. Choi Kin Chung, a director of the Company, is a related party of the Company.

(d) *Key management compensation*

	Year ended March 31,			Eight months ended	
	2004	2005	2006	2005	2006
	HK\$'000	HK\$'000	HK\$'000	(unaudited)	HK\$'000
Wages, salaries, bonus and allowances	25,440	28,246	21,552	14,376	24,005
Retirement benefits — defined contribution schemes	93	104	90	62	56
	<u>25,533</u>	<u>28,350</u>	<u>21,642</u>	<u>14,438</u>	<u>24,061</u>

- (e) The amounts due from shareholders, to a shareholder and due from and to subsidiaries are unsecured interest free and repayable on demand.
- (f) Spider Textiles Limited, a dormant subsidiary of the Company, was disposed of on March 15, 2006 to Mr. Tsang Kang Po, a director of the Company, for a consideration of HK\$1. The terms of the transaction were mutually agreed by both parties.

36 SUBSEQUENT EVENTS

Except as disclosed in notes 17 and 30, there were no significant events subsequent to November 30, 2006.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to November 30, 2006. In addition, except as disclosed in Section II — Notes 30 no dividend has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to November 30, 2006.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
 Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report prepared by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountants' Report" set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of the Company as at November 30, 2006 as if the Global Offering had taken place on November 30, 2006 assuming the over-allotment is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at November 30, 2006 or at any future dates following the Global Offering.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at November 30, 2006 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company (Note 3)	Unaudited pro forma adjusted net tangible assets per share (Note 4)
	HK\$'000	HK\$'000	HK\$'000	HK\$
Based on an Offer Price of HK\$4.15 per share	1,251,708	1,386,063	2,637,771	1.84
Based on an Offer Price of HK\$5.50 per share	1,251,708	1,855,170	3,106,878	2.17

Notes:

- (1) The audited consolidated net tangible assets attributable to the equity holders of the Company as at November 30, 2006 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at November 30, 2006.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer price of HK\$4.15 and HK\$5.50 per Share after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma net tangible assets of the Group attributable to the equity holders of the Company does not take into account the special dividend of approximately HK\$780 million declared by the Board on April 26, 2007 payable to our existing shareholders on May 17, 2007.
- (4) The unaudited pro forma net tangible assets per Shares is arrived at after the adjustments referred to in Note 2 above and on the basis that 1,432,936,000 Shares were in issue assuming that the Global Offering has been completed on November 30, 2006 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Share which may be allotted and issued or repurchased by the Company pursuant to the issuing mandate and the Repurchase Mandate.

- (5) As at February 28, 2007, the Group's land use rights and buildings interests were revalued by Vigers Appraisal & Consulting Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV — Property Valuation. The net revaluation surplus, representing the excess of market value of the land use rights and buildings over their book value, is approximately HK\$94,892,000. Such revaluation surplus has not been included in the Group's consolidated financial information as at November 30, 2006 and will not be included in the Group's accounts for the year ended March 31, 2007. The above adjustment does not take into account the above revaluation surplus. Had the land use rights and buildings been stated at such valuation, an additional depreciation of HK\$3,411,600 per annum would be charged against the consolidated income statement for the year ended March 31, 2007.
- (6) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to November 30, 2006.

B. UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE

The following unaudited pro forma estimated earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had been taken place on April 1, 2006. This unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial results of the Group for the year ended March 31, 2007 or any future period.

Estimated consolidated profit attributable to equity holders of the Company for the year ended March 31, 2007 ¹	Not less than HK\$551.7 million
Unaudited pro forma estimated earnings per Share ²	Not less than HK\$0.39

Notes:

- The estimated consolidated profit attributable to equity holders of the Company for the year ended March 31, 2007 is extracted from the section headed "Financial Information — Profit Estimate" in this Prospectus. The bases on which the above profit estimate has been prepared are summarised in Appendix III to this prospectus. The Directors of the Company have prepared the estimated consolidated profit attributable to equity holders of the Company for the year ended March 31, 2007 based on the audited consolidated financial statements of the Group for the eight months ended November 30, 2006, the unaudited consolidated results based on management accounts of the Group for the three months ended February 28, 2007 and an estimate of the consolidated results of the Group for the remaining one month ended March 31, 2007. The estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 3 of Section II of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.
- The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated consolidated profit attributable to the equity holders of the Company for the year ended March 31, 2007, assuming that the Shares in issue at the date of this Prospectus and 1,432,936,000 Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on April 1, 2006. The calculation assumes that the Over-allotment Option will not be exercised.

C. REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

REPORT FROM ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF PACIFIC TEXTILES HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Pacific Textiles Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages II-1 to II-2 under the headings of “Unaudited Pro Forma Statement of Adjusted Net Tangible Assets” and “Unaudited Pro Forma Estimated Earnings Per Share” (the “Unaudited Pro Forma Financial Information”) in Appendix II of the Company’s prospectus dated May 7, 2007, in connection with the proposed initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Prospectus”). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Prospectus.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated net assets of the Group as at November 30, 2006 with the Accountants’ Report as set out in Appendix I of the Prospectus, comparing the unaudited estimated consolidated profit attributable to equity holders of the Company for the year ended March 31, 2007 with the profit estimate as set out in the section headed “Financial Information” in the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at November 30, 2006 or any future date, or
- the earnings per share of the Group for the year ended March 31, 2007 or any future periods.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, May 7, 2007

The estimated consolidated net profit after tax attributable to equity holders of the Company for the year ended March 31, 2007 is set out in the section headed “Financial Information – Profit estimate.”

A. BASES

The Directors have prepared the estimate of consolidated profit attributable to the shareholders of the Company for the year ended March 31, 2007 based on the audited consolidated results of the Group for the eight months ended November 30, 2006, the unaudited consolidated results based on management accounts for the three months ended February 28, 2007 and an estimate of the consolidated results of the Group for the remaining month ended March 31, 2007. The estimate has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Group as summarized in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

B. LETTERS

Set out below are the texts of the letters, prepared for inclusion in this prospectus, received from the Company's reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong and from the Joint Sponsors in connection with the estimate of the consolidated profit attributable to the shareholders of the Company for the year ended March 31, 2007.

(i) *Letter from PricewaterhouseCoopers*

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

The Directors
Pacific Textiles Holdings Limited

May 7, 2007

Citigroup Global Markets Asia Limited
Morgan Stanley Dean Witter Asia Limited

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the estimate of the consolidated profit attributable to equity holders of Pacific Textiles Holdings Limited (the "Company") for the year ended March 31, 2007 (the "Profit Estimate") as set out in the subsection headed "Profit Estimate" in the section headed "Financial information" in the prospectus of the Company dated May 7, 2007 (the "Prospectus").

We conducted our work in accordance with the Auditing Guideline 3.341 on "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Estimate, for which the directors of the Company are solely responsible, has been prepared by them based on the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as "the Group") for the eight months ended November 30, 2006, the unaudited consolidated results based on management accounts for the three months ended February 28, 2007, and an estimate of the consolidated results of the Group for the remaining one month ended March 31, 2007.

In our opinion, the Profit Estimate, so far as the calculation and accounting policies are concerned, has been properly compiled in accordance with the bases made by the Directors of the Company as set out on page III-1 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in note 3 under Section II of our Accountants' Report dated May 7, 2007, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(ii) *Letter from the Joint Sponsors*



Citigroup Global Markets Asia Limited
50th Floor, Citibank Tower, Citibank Plaza
3 Garden Road
Central
Hong Kong

Morgan Stanley

Morgan Stanley Dean Witter Asia Limited
30/F, Three Exchange Square
Central
Hong Kong

May 7, 2007

The Directors
Pacific Textiles Holdings Limited

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to the shareholders of Pacific Textiles Holdings Limited (the "Company", together with its subsidiaries, the "Group") for the year ended March 31, 2007 (the "Profit Estimate") as set out in the section entitled "Financial Information — Profit Estimate" of the prospectus of the Company dated May 7, 2007 (the "Prospectus").

The Profit Estimate, for which the directors of the Company are solely responsible, has been prepared by them based on the audited consolidated results of the Group for the eight months ended November 30, 2006, the unaudited consolidated results based on management accounts for the three months ended February 28, 2007, and an estimate of the consolidated results of the Group for the remaining one month ended March 31, 2007.

We have discussed with you the bases made by the Directors as set out in Appendix III to the Prospectus upon which the Profit Estimate has been made. We have also considered the letter dated May 7, 2007 addressed to yourselves and ourselves from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Profit Estimate, for which you are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Citigroup Global Markets Asia Limited
Name: **Florence Fan**
Title: Director

For and on behalf of
Morgan Stanley Dean Witter Asia Limited
Name: **Deborah Mei**
Title: Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Vigers, an independent valuer, in connection with its valuation as at February 28, 2007 of the property interests of the Group.

Vigers Appraisal & Consulting Limited

International Asset Appraisal Consultants

10th Floor
The Grande Building
398 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong



May 7, 2007

The Directors
Pacific Textiles Holdings Ltd
7th Floor, Block B
Eastern Sea Industrial Building
Nos. 48–56 Tai Lin Pai Road
Kwai Chung
New Territories
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Pacific Textiles Holdings Limited (the “Company”) or its subsidiaries (collectively referred to as the “Group”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at February 28, 2007 (the “date of valuation”) for incorporating into the prospectus.

Our valuation is our opinion of the market value of the property interest which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

For Property 1, which is located in Hong Kong, we have caused search to be made on the title of the property. For Property 2, we have been provided with certain extracts of title documents relating to the property interests. We have not caused title search to be made at the relevant government bureau in the People’s Republic of China (the “PRC”) nor inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation of the properties in the PRC and Sri Lanka, we have relied on the legal opinions provided by the Group’s legal advisers, respectively King and Wood in the PRC and F. J. & G. de Saram in Sri Lanka.

In valuing the property interest in Group I, we have adopted the direct comparison approach by making reference to comparable sales transactions available in the relevant market.

For the properties in Groups II and III, due to the lack of identifiable market transaction on properties of similar nature of the buildings and structure, we have adopted a combination of the market and depreciated replacement cost approaches in assessing the land portion of the property and the buildings and structures standing on the land respectively. The sum of the two results represents the market value of the property as a whole. In the valuation of the land portion, reference has been made to the standard land prices in the relevant cities and the sales evidences in the locality as available to us.

The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes a reliable indication of value for property in the absence of a known market based on comparable sales. It is subject to adequate potential profitability of the business or of the whole entity.

The properties in Groups IV to VII have been ascribed no commercial value due to the short-term nature of their tenancies, their prohibition against assignment or sub-letting, or otherwise the lack of substantial profit rent.

In valuing the properties, we have assumed that the property owner has free and uninterrupted rights to use the property and is entitled to transfer, lease or mortgage the property to any third party with the residual term without payment of any further premium or onerous fee to the government or any third party. All land use rights premium and other relevant costs and fees on utility provisions are assumed to have been fully settled.

Our valuation has been made on the assumption that the owners sell the property interests on the market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation. Unless otherwise stated, the valuation represents the value of the entire property interest described in the valuation certificate and not the value of a share of it. Other assumptions in respect of each property, if any, have been set out in the footnotes of the valuation certificate for the respective property.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, site and floor areas, development plans, construction costs, identification of the properties and other relevant matters. We have also been advised by the Company that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

We have had no reason to doubt the true and accuracy of the information provided to us by the Group, and have no reason to suspect that any material information has been withheld. We considered that we have been provided with sufficient information to reach an informed view.

All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Company and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services, etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

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

In valuing the properties in Group III, we have taken reference to the valuation report on the properties prepared by P.B. Kalugalagedera, Chartered Valuation Surveyor, in Sri Lanka.

In valuing the property interests, we have complied with the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors (“HKIS”).

Unless otherwise stated, the exchange rates used in valuing the property interests in the PRC and Sri Lanka as at the date of valuation were respectively RMB1 = HK\$1.01 and Rs. 1 = HK\$0.072. There has been no significant fluctuation in exchange rates between that date and the date of this letter.

We enclosed herewith a summary of our valuation and the valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc (e-com)
Executive Director

Note: Raymond K.K. Ho, Chartered Surveyor, MRICS, MHKIS has over nineteen years' experience in undertaking valuations of properties in Hong Kong and Macau, over twelve years' experience in the valuation of properties in the PRC, and substantial experience in valuation of leased properties in the United Kingdom. Mr. Ho has been working with Vigers Group since 1989.

SUMMARY OF VALUATION

<u>Property</u>	<u>Capital Value in existing state as at February 28, 2007</u>
Group I – Property interests held and occupied by the Group in Hong Kong	
1. Units A2, B1, B2 and B3 on 7th Floor and Car Parking Spaces Nos. 36 and 39 on Ground Floor, Eastern Sea Industrial Building, Nos. 48–56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong	HK\$28,500,000
Sub-total:	HK\$28,500,000
Group II – Property interests held and occupied by the Group in the PRC	
2. An industrial complex located at Lot 21-0664 in Tongxing Village, Liuyong Area, Wanqingsha Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	RMB379,000,000 (equivalent to approximately HK\$382,790,000)
Sub-total:	RMB379,000,000 (equivalent to approximately HK\$382,790,000)
Group III – Property interests held and occupied by the Group in Sri Lanka	
3. An industrial complex located at Nos. D8 to D14, Seethawaka Industrial Zone, Avisawella District, Sri Lanka	Rs. 479,000,000 (equivalent to approximately HK\$34,490,000)
4. T. J. Residencies, Seethawaka Industrial Zone, Avisawella District, Sri Lanka	Rs. 66,000,000 (equivalent to approximately HK\$4,752,000)
5. Two parcels of land (marked Lot 1 and Lot 59A) located at Arthurfieldwatta, Seethawaka Industrial Zone, Avisawella District, Sri Lanka	No commercial value
Sub-total	Rs. 545,000,000 (equivalent to approximately HK\$39,242,000)

<u>Property</u>	<u>Capital Value in existing state as at February 28, 2007</u>
Group IV — Property interests leased and occupied by the Group in Hong Kong	
6. Parking Spaces Nos. 29, 31, 38, 44 and 46 on Ground Floor, Eastern Sea Industrial Building, Nos. 48–56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong	No commercial value
7. Parking Space No. 39 on Car Park B1, One Beacon Hill, No. 1 Beacon Hill Road, Kowloon, Hong Kong	No commercial value

	Sub-total: Nil
Group V — Property interests leased and occupied by the Group in Macau	
8. Unit A7, Com. Talent International (also known as Centro Comercial Talento), No. 807–815 Avenida Da Praia Grande, Macau	No commercial value
9. Unit E, Level 7, Peach Court, Jardins Do Oceano, No. 810-D Avenida Dos Jardins Do Oceano, Na Taipa, Macau	No commercial value

	Sub-total: Nil

<u>Property</u>	<u>Capital Value in existing state as at February 28, 2007</u>
Group VI — Property interests leased and occupied by the Group in the PRC	
10. Dams Hongqili and Diliuchong situated to the west of Lot 21-0664 in Tongxing Village, Liuyong Area, Wanqingsha Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	No commercial value
11. A parcel of land situated to the east of Lot 21-0664 in Tongxing Village, Liuyong Area, Wanqingsha Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	No commercial value
12. A factory complex known as Wan Ying Paper Factory in Tongxing Village, Liuyong Area, Wanqingsha Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	No commercial value
13. A factory previously known as Jun Jie Enterprise Workshop in Huaqiao Industrial City, Xinguang Second Road, Zhujiang Administrative Area, Nansha District, Guangzhou City, Guangdong Province, the PRC	No commercial value

<u>Property</u>	<u>Capital Value in existing state as at February 28, 2007</u>
14. A warehouse at Liuyou Company, Hexing Road, Changsha Village, Hengli Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	No commercial value
15. No. 519 First Street, Wanqingsha Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	No commercial value
	<hr/>
	Sub-total: Nil
Group VII – Property interest leased and occupied by the Group in the United Kingdom	
16. Third and Fourth Floors, 47 Dorset Street, London, W1V 7ND, United Kingdom	No commercial value
	<hr/>
	Sub-total: Nil
	<hr/>
	Grand-total: equivalent to approximately HK\$450,532,000
	<hr/> <hr/>

VALUATION CERTIFICATES

Group I – Property interests held and occupied by the Group in Hong Kong

	<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at February 28, 2007</u>
1.	Units A2, B1, B2 and B3 on 7th Floor and Car Parking Spaces Nos. 36 and 39 on Ground Floor, Eastern Sea Industrial Building, Nos. 48–56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong 31.9/467th equal and undivided shares of and in Kwai Chung Town Lot No. 143	The property comprises four units on the 7th floor together with two car parking spaces on the ground floor of an 8-storey industrial building completed in 1975. The property (excluding the car parking spaces) has a total saleable area of approximately 39,812 sq.ft. The property is held under New Grant No. TW4742 for a term of the residue of 99 years less 3 days commencing from July 1, 1898 and extended until June 30, 2047 at an annual rent of 3% of the then rateable value charged from the date of extension.	The property is occupied by the Group as storage and office.	HK\$28,500,000

Notes:

- i. According to the Land Register, the registered owner of the property is Pacific Textiles Limited.
- ii. According to the Company, Pacific Textiles Limited is a wholly-owned subsidiary of the Company.

Group II — Property interests held and occupied by the Group in the PRC

Property	Description and Tenure	Particulars of occupancy	Capital Value in existing state as at February 28, 2007
2. An industrial complex located at Lot 21-0664 in Tongxing Village, Liuyong Area, Wanqingsha Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	<p>The property comprises a parcel of land having a site area of approximately 334,435 sq.m. together with the buildings and associated structures erected thereon.</p> <p>The buildings have a total gross floor area of approximately 273,000 sq.m. completed in between 1998 and 2006 together with certain temporary buildings and structures having a total area of about 21,017 sq.m.</p> <p>The buildings and structures mainly include workshops, dormitories, thermal power plants and water treatment plants, together with associated structures including roadwork and fencing wall.</p> <p>The property is held with land use rights for a year term expiring on June 11, 2048.</p>	The property is occupied by the Group as production complex.	RMB379,000,000 (equivalent to approximately HK\$382,790,000)

Notes:

- i. According to the State-owned Land Use Rights Certificate Pan Fu Guo Yong (2001) No. G21-000003, the land use rights of the property having a total site area of approximately 334,435 sq.m. have been granted to 互太 (番禺) 紡織印染有限公司 (Pacific (Panyu) Textiles Limited or "PPTL") for industrial uses for a term expiring on June 11, 2048.
- ii. According to 23 Real Estate Title Certificates Yue Fang Di Zheng Zi Nos. C0302114 to C0302118, C0521874 to C0521880, C0521983 to C0521985, C0525319, C0721040, C4053147 to C4053151 and C4053313, the title of the buildings having a total gross floor area of approximately 267,099.9 sq.m. is vested in PPTL. Further details are as follows:

No.	Certificate No.	Building Name	No. of Storey	Uses	Gross Floor Area (in sq.m.)
1.	C0302114	Dormitory 2	7	Residential	6,429.6
2.	C0302115	Dormitory 3	7	Residential	5,424.9
3.	C0302116	Workshop A2	3	Workshop	20,801.2
4.	C0302117	Workshop B1	4	Workshop	25,641.8
5.	C0302118	Workshop A1	3	Workshop	20,255.7
6.	C0521874	Air blower house 2	2	Non-domestic	213.6
7.	C0521875	Sewage pump room 2	1	Non-domestic	250.0
8.	C0521876	Air blower house 1	1	Non-domestic	126.0
9.	C0521877	Workshop B4	12	Non-domestic	78,866.5
10.	C0521878	Sludge drying house	1	Non-domestic	611.4
11.	C0521879	Sewage pump room 1	2	Non-domestic	316.4
12.	C0521880	Salt pump room	1	Non-domestic	130.0
13.	C0521983	Workshop A3	3	Workshop	22,566.2
14.	C0521984	Workshop B2	4	Workshop	25,753.9
15.	C0521985	Dormitory 5	7	Others	6,372.7
16.	C0525319	Sludge dewatering house	3	Non-domestic	358.0
17.	C0721040	Dormitory 1	7	Residential	5,424.9
18.	C4053147	Dormitory 6	7	Domestic	6,241.7
19.	C4053148	Coal storage	—	Non-domestic	2,149.1
20.	C4053149	Thermal power plant	7	Non-domestic	8,835.4
21.	C4053150	Water purification	7	Non-domestic	530.8
22.	C4053151	Dormitory 4	7	Domestic	6,605.9
23.	C4053313	Workshop A4	—	Domestic and Non-domestic	23,194.2
				Total:	<u>267,099.9</u>

- iii. There is one completed dormitory (Dormitory 13) having a total gross floor area of about 6,294 sq.m. erected on the site without a real estate title certificate issued for it. The Construction Land Planning Permit, Construction Works Planning Permit and Construction Works Commencement Permit Facilities for its construction have been granted. According to PPTL, application for the issuance of the certificate for the building is in progress. We have ascribed no commercial value to it due to the absence of a title certificate. For reference purposes, the capital value of the building in existing state, as at the date of valuation, is in the region of RMB6,570,000.
- iv. There are certain construction works in progress or construction practically completed recently on the site. They comprise a workshop A5, a canteen/office building, water treatment plant Phase III, thermal power plant Phase IV, central warehouse, together with some temporary structures. Their total gross floor area is about 104,821.5 sq.m. As at the date of valuation, the total construction costs expended on them was approximately RMB245,826,000. The outstanding construction costs to complete the construction was approximately RMB40,634,000. According to PPTL, the scheduled date of completion for all the construction is around May 2007. The Construction Land Planning Permits, Construction Works Planning Permits and Construction Works Commencement Permits for the construction of the buildings have been granted. In the course of our valuation, we have not taken such construction cost expended into account.
- v. According to a tenancy agreement entered into between Pacific (Panyu) Textile Limited (the lessor) and 住江互太(廣州)汽車紡織產品有限公司 (SPM Automotives Textiles Co., Ltd.) (the lessee), a portion of a workshop (namely the 2nd Floor of Block A3) having a total gross floor area of 5,886 sq.m. has been leased out to the lessee for a term of 2 years from August 1, 2005 at a monthly rent of RMB100,000.
- vi. The PRC legal opinion states, *inter alia*, the follows:
1. PPTL legally owns the land use rights of the property and is entitled to assign, lease, mortgage or dispose of the land use rights in accordance with the laws. The land use rights are not subject to mortgage.
 2. PPTL legally owns the 23 buildings with real estate title certificates issued and is entitled to assign, lease, mortgage or dispose of the buildings in accordance with the laws. The buildings are not subject to mortgage.
 3. Referring to note (iii) above, for Dormitory 13, PPTL has not applied for a Memorandum Notes on Building Construction and Utilities Facilities and the registration of the completed construction with the authority within the prescribed period in the relevant regulations. According to the regulation, PPTL may subject to penalties imposed by the government authority. As PPTL has complied with the relevant application on the construction of the building, upon a Memorandum Notes on Building Construction and Utilities Facilities has been issued for Dormitory 13, there should not be any significant legal impediments for PPTL to apply for the building ownership certificate.
 4. Referring to note (iv) above on the construction in progress or construction recently completed, the relevant Construction Land Planning Permit, Construction Works Planning Permit and Construction Works Commencement Permit on the construction of the buildings have been granted. However, the completion date stated in the Construction Works Commencement Permit for the central warehouse has expired. According to the Company, an application for extension of time for completion is in progress. If the application has not been granted, PPTL may subject to penalties imposed by the relevant authorities.
Further, if portions of the workshop and canteen/office building are used and occupied by the Group without having completed the formal completion handover procedure, PPTL may be subject to penalties including the termination of the current use and a fine imposed by the relevant authorities.
When the legal procedures for the above works have been complied with, the construction works may be continued or the completed buildings may be occupied.
 5. The tenancy agreement entered into between PPTL (the lessor) and 住江互太(廣州)汽車紡織產品有限公司 (SPM Automotive Textile Co., Ltd.) (the lessee) has been registered with the authority. The agreement is legal and effective.
- vii. According to the Company, Pacific (Panyu) Textiles Limited and 住江互太(廣州)汽車紡織產品有限公司 (SPM Automotive Textile Co., Ltd.) are respectively 100% and 33% owned by the Group.

Group III — Property interests held and occupied by the Group in Sri Lanka

Property	Description and Tenure	Particulars of occupancy	Capital Value in existing state as at February 28, 2007
3. An industrial complex located at Nos. D8 to D14, Seethawaka Industrial Zone, Avissawella District, Sri Lanka	<p>The property comprises two parcels of land having a total site area of approximately 18.18 acres (or 73,572 sq.m.) together with the 8 buildings erected thereon.</p> <p>The buildings have a total gross floor area of approximately 323,448 sq.ft. completed in between 2001 to 2006.</p> <p>The buildings mainly include 3 workshops, an administrative office and effluent plant, together with ancillary houses such as a canteen, engineering store and security house.</p> <p>The property is held with a lease for a term of 50 years from January 24, 2002.</p>	The property is occupied by the Group as industrial complex.	Rs.479,000,000 (equivalent to approximately HK\$34,490,000)

Notes:

- i. According to the Lease Agreement entered into between the Board of Investment of Sri Lanka (Party A) and Textured Jersey Lanka (Private) Limited (Party B) dated January 24, 2002, a parcel of land having a site area of approximately 18.18 acres (approximately 73,572 sq.m.) has been granted from Party A to Party B for a term of 50 years from January 24, 2002 for the establishment of plant, office and storage facilities for the purpose of a fabric and related product manufacturing business at a premium of Rs. 16,907,400 and an annual ground rent of Rs. 1,690,740.
- ii. The legal opinion from F. J. & G. de Saram on the property, states, *inter alia*, the follows:
 1. Textured Jersey Lanka (Private) Limited has valid leasehold title to the land under and by virtue of the agreements with the Board of Investment of Sri Lanka.
 2. According to the land registry, the land is subject to a concurrent mortgage in favor of Commercial Bank Limited and Hong Kong and Shanghai Bank.
 3. Subject to the above, no defects in the leasehold title of the lands have been seen.
- iii. According to the Company, Textured Jersey Lanka (Private) Limited is a 52% owned subsidiary of the Group.
- iv. Our valuation conclusion has been arrived having regard to the valuation report undertaken by Mr. P. B. Kalugalagedera, Fellow of the Institute of Valuers (F.I.V.), Sri Lanka and Fellow of The Royal Institution of Chartered Surveyor (FRICS). Mr Kalugalagedera has 40 years' experience in the valuation of properties in Sri Lanka. The valuation has been conducted in compliance with the RICS Appraisal and Valuation Standards.

Property	Description and Tenure	Particulars of occupancy	Capital Value in existing state as at February 28, 2007
4. T. J. Residencies, Seethawaka Industrial Zone, Avisawella District, Sri Lanka	<p>The property comprises a parcel of land having a total site area of approximately 3.06 acres (or 12,383 sq.m.) together with the residential buildings erected thereon.</p> <p>The buildings have a total gross floor area of approximately 23,302 sq.ft. completed in 2006.</p> <p>The buildings mainly include 5 staff dormitories together with ancillary buildings such as a canteen/facility block and a gymnasium.</p> <p>The property is held with a lease for a term of 30 years from April 7, 2005.</p>	The property is occupied by the Group as staff dormitories.	Rs.66,000,000 (equivalent to approximately HK\$4,752,000)

Notes:

- i. According to a Lease Agreement entered into between the Board of Investment, Sri Lanka (Party A) and Textured Jersey Lanka (Private) Limited (Party B) dated April 7, 2005, a parcel of land having a site area of approximately 3.06 acres (approximately 12,383 sq.m.) has been granted from Party A to Party B for a term of 30 years commencing from April 7, 2005 for staff accommodation uses at a premium of Rs. 4,150,000 and an annual ground rent of Rs. 3,062.62.
- ii. The legal opinion from F. J & G. de Saram on the property, states, *inter alia*, the follows:
 1. Textured Jersey Lanka (Private) Limited has valid leasehold title to the land by virtue of the agreements with the Board of Investment of Sri Lanka.
 2. According to the land registry, no document reveal that the land is encumbered in any manner.
- iii. According to the Company, Textured Jersey Lanka (Private) Limited is a 52%-owned subsidiary of the Group.
- iv. Our valuation conclusion has been arrived having regard to the valuation report undertaken by Mr. P. B. Kalugalagedera, Fellow of the Institute of Valuers (F.I.V.), Sri Lanka and Fellow of The Royal Institution of Chartered Surveyors (FRICS). Mr Kalugalagedera has 40 years' experience in the valuation of properties in Sri Lanka. The valuation has been conducted in compliance with the RICS Appraisal and Valuation Standards.

	<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at February 28, 2007</u>
5.	Two parcels of land (marked Lot 1 and Lot 59A) located at Arthurfieldwatta, Seethawaka Industrial Zone, Avissawella District, Sri Lanka	The property comprises two parcels of land having a total site area of approximately 49,120 sq.m. Lot 1 and Lot 59A respectively have the site areas of 8,640 sq.m. and 40,480 sq.m.	The property is held by the Group for future production expansion.	No commercial value

Notes:

- i. According to the Lease Agreement entered into between the Board of Investment of Sri Lanka (Party A) and Textured Jersey Lanka (Private) Limited (Party B) dated March 16, 2007, two parcels of land respectively having the site area of approximately 0.864 hectare and 4.048 hectare have been granted from Party A to Party B for a term of 30 years from March 16, 2007 for production expansion of a weft knit fabric manufacturing plant purpose at a premium of Rs. 66,108,500 and an annual ground rent of US\$46,700.50.
- ii. The legal opinion from F. J & G. de Saram on the property, states, inter alia, the follows:
 1. Textured Jersey Lanka has valid leasehold title to the land.
 2. There is no encumbrance on the leasehold title of the land. However, the lease agreement is pending registration at the Registrar of Lands.
 3. Textured Jersey Lanka has paid Rs. 66,108,500 in respect of the land.
- iii. The property has been ascribed no commercial value as the obligation of investment on the land as improvements into a weft knit fabric manufacturing plant under the lease agreement has not yet been met by the lessee.
- iv. According to the Company, Textured Jersey Lanka (Private) Limited is a 52%-owned subsidiary of the Group.
- v. Our valuation conclusion has been arrived at with regard to the valuation report undertaken by Mr. P. B. Kalugalagedera, Fellow of the Institute of Valuers (F.I.V), Sri Lanka and Fellow of The Royal Institution of Chartered Surveyors (FRICS). Mr Kalugalagedera has 40 years' experience in the valuation of properties in Sri Lanka. The valuation has been conducted in compliance with the RICS Appraisal and Valuation Standards.

Group IV — Property interests rented and occupied by the Group in Hong Kong

Property	Description and Tenure	Particulars of occupancy	Capital Value in existing state as at February 28, 2007
6. Parking Spaces Nos. 29, 31, 38, 44 and 46 on Ground Floor, Eastern Sea Industrial Building, Nos. 48–56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong	The property comprises 5 car parking spaces on the ground floor of an 8-storey building completed in 1975.	The property is leased from 2 independent third parties to the Group with various term (see note (ii) below). The property is occupied by the Group as car parking spaces.	No commercial value

Notes:

- i. According to the Land Register, the registered owner of Parking Spaces Nos. 29, 31, 38 and 44 is Central Textiles Knitting and Dyeing Limited, and the registered owner of Parking Space No. 46 is All Asia Industries Ltd. The registered owners are independent third parties of the Group.
- ii. The particulars of the tenancies are summarized as follows:

Carparking Spaces No.	Term	Monthly Rent (HK\$)
29 and 31	Monthly basis from February 1, 2003	6,400
38	Monthly basis from May 1, 2003	2,200
44	Monthly basis from July 15, 2001	2,400
46	Quarterly basis from June 1, 2005	2,400
	Total:	13,400

All inclusive of management fee, rates and government rent and all other outgoings.

7. Parking Space No. 39 on Car Park B1, One Beacon Hill, No. 1 Beacon Hill, Road, Kowloon	The property comprises a car parking space on the basement level 1 of an 3-storey basement completed in 2004.	The property is leased from independent third parties to the Group for a term of one year from January 1, 2007 at a monthly rental of HK\$3,600. The property is occupied by the Group as car parking space.	No commercial value
---	---	---	---------------------

Note: According to the Land Register, the registered owners of the property are Suen Kam Kwan and Chung Chau Ying, independent third parties of the Group.

Group V — Property interests leased and occupied by the Group in Macau

	<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at February 28, 2007</u>
8.	Unit A7, Com. Talent International (also known as Centro Comercial Talento), No. 807-815 Avenida Da Praia Grande, Macau	The property comprises the whole of the 7th-level of a 21-storey office building completed in or about 1992. The property has a total net floor area of approximately 175.6 sq.m.	The property is leased from an independent third party for a term of two years from July 10, 2006 at a monthly rent of HK\$17,000, inclusive of management fee and other operating outgoings. The property is occupied by the Group as office.	No commercial value
	<p>Note: According to Informação Por Escrito Do Registo Predial (the Land Registration Record in Macau), the registered owners of the property are So Man Fung, So Kin Yu and Ho Yuk Tan Diana, independent third parties of the Group.</p>			
9.	Unit E, Level 7, Peach Court, Jardins Do Oceano, No. 810-D Avenida Dos Jardins Do Oceano, Na Taipa, Macau	The property comprises a unit on the 7th- level of a 25-storey residential building completed in or about 1996. The property has a total net floor area of approximately 90.7 sq.m.	The property is leased from an independent third party for a term of one year from June 1, 2006 at a monthly rent of HK\$6,500, inclusive of management fee and other operating outgoings. The property is occupied by the Group as staff quarters.	No commercial value
	<p>Note: According to Informação Por Escrito Do Registo Predial (the Land Registration Record in Macau), the registered owner of the property is Ao Sou, an independent third party of the Group.</p>			

Group VI — Property interests leased and occupied by the Group in the PRC

	<u>Property</u>	<u>Description</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at February 28, 2007</u>
10.	Dams Hongqili and Diliuchongbei situated to the west of Lot 21-0664 in Tongxing Village, Liuyong Area, Wanqingsha Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	The property comprises two parcel of land of the dams having a total area of about 2,700 sq.m.	The property is leased by Spider Pacific Ltd (互通太平洋有限公司) from 番禺市萬頃沙鎮房地產開發公司 (Panyu Wanqingsha Town Real Estate Development Company Limited), an independent third party, for a term of 50 years at a yearly rent of RMB21,500, to be increased 5% for every 5 years for plantation and greenbelt uses. The property is used by the Group as fencing wall.	No commercial value

Notes:

- i. The PRC legal opinion states, *inter alia*, the follows:
 1. As the land use rights certificate for the land has not been provided, it is unable to verify if the lessor has the right to lease the property. The leasing of the property by the lessee may subject to dispute raised by third parties.
 2. According to the relevant regulations on land use rights registration, the lessee should apply for the registration of the lease agreement.
 3. According to the Company, the current use of the property as fencing wall does not have any decisive impact on its production operation. The defects on the leased property's title would not constitute any practical impediment on the public listing of the Company.
- ii According to the Company, Spider Pacific Ltd has been renamed as Pacific Textiles Limited, which is a wholly-owned subsidiary of the Group.

	<u>Property</u>	<u>Description</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at February 28, 2007</u>
11.	A parcel of land situated to the east of Lot 21-0664 in Tongxing Village, Liuyong Area, Wanqingsha Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	The property comprises a strip of land having a total area of about 37.5 Chinese mu (equivalent to approximately 2,500 sq.m.).	The property is leased by Pacific (Panyu) Textiles Limited from 萬頃沙鎮人民政府 (The People's Government of Wanqingsha Town), an independent third party, for a term of 10 years from February 26, 2000 at a yearly rent of RMB29,500, to be increased 5% every 5 years for plantation uses. The property is used by the Group as boundary strip.	No commercial value

Note:

- i. The PRC legal opinion states, *inter alia*, the follows:
 1. According to the relevant promulgated government notes on the leasing of state-owned land, Pacific (Panyu) Textiles Limited should enter into the lease agreement with the land administrative bureau of the city or county for agreement on lease term longer than 6 months.
 2. The current use of the land as a boundary strip for fencing purpose may violate the agreed use of the land. The lessee has obtained a verbal approval from the lessor on the current use of the land. However, in the absence of a written confirmation, the lessee may be subject to the risks on violating the lease agreement. The lessee may be ordered to use this leased land as agreed for trees planting and greening purpose and compensate the lessor for the losses caused by such violation.
 3. According to the relevant regulations on land use rights registration, the lessee should apply for the registration of the lease agreement.
 4. According to the Company, the current use of the property as boundary strip does not have any decisive impact on its production operation. The defects on the leased property's title would not constitute any practical impediment on the public listing of the Company.
 5. Since the landlord of the property is the local land bureau, there is no requirement for the land to be held with a land use rights certificate.
- ii. Pacific (Panyu) Textiles Limited is a wholly-owned subsidiary of the Group.

	<u>Property</u>	<u>Description</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at February 28, 2007</u>
12.	A factory complex known as Wan Ying Paper Factory in Tongxing Village, Liuyong Area, Wanqingsha Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	The property is an industrial complex comprising 7 single to 3-storey buildings built in about 2001. The property has a total gross floor area of about 10,935 sq.m.	The property is leased by Pacific (Panyu) Textiles Limited from 冼樹棠 (Xian Shu Tang), an independent third party, on short-term basis from January 1, 2005 at a monthly rental rate of RMB9 per sq.m., inclusive of taxes. The property is occupied by the Group as warehouse.	No commercial value

Note:

- i. The PRC legal opinion states, *inter alia*, the follows:
 1. The realty title certificate of the property has not been provided. According to the relevant laws and regulations, if the lessor does not possess the title of the property or the owner's authorization to lease the property, the leasing may subject to dispute raised by third parties.
 2. The lease agreement has not been registered with the authority. According to the relevant regulations on land use rights registration, the effectiveness of the lease agreement will not be affected due to the non-registration of the agreement. However, the entering parties of the agreement may subject to penalties imposed by the government and dispute raised by third parties who have properly registered their agreements on the same property.
 3. According to the Company, if warehouse removal were necessary due to the property title defect or absence of registration of the lease agreement with the authority, the Company would be able to relocate its warehouse into similar replacement property having proper legal titles in the locality. In the PRC counsel's opinion, the defects on the lease property interest would not constitute any practical impediment on the public listing of the Company.
- ii. Pacific (Panyu) Textiles Limited is a wholly-owned subsidiary of the Group.

	Property	Description	Particulars of occupancy	Capital Value in existing state as at February 28, 2007
13.	A factory previously known as Jun Jie Enterprise Workshop in Huaqiao Industrial City, Xinguang Second Road, Zhujiang Administrative Area, Nansha District, Guangzhou City, Guangdong Province, the PRC	The property comprises a 3-storey industrial building built in about 1996. The property has a gross floor area of about 7,265.6 sq.m.	The property is leased by Pacific (Panyu) Textiles Limited from 梁桂滿 (Liang Gui Man), an independent third party, on short term basis from January 1, 2005 at a monthly rent of RMB61,951.97, inclusive of taxes. The property is occupied by the Group as warehouse.	No commercial value

Note:

- i. The PRC legal opinion states, *inter alia*, the follows:
 1. The realty title certificate of the property has not been provided. According to the relevant laws and regulations, if the lessor does not possess the title of the property or the owner's authorization to lease the property, the leasing may subject to dispute raised by third parties.
 2. The lease agreement has not been registered with the authority. According to the relevant regulations on land use rights registration, the effectiveness of the lease agreement will not be affected due to the non-registration of the agreement. However, the entering parties of the agreement may subject to dispute raised by third parties who have properly registered their agreements on the same property.
 3. According to the Company, if warehouse removal were necessary due to the property title defect or absence of registration of the lease agreement with the authority, the Company would be able to relocate its warehouse into similar replacement property having proper legal titles in the locality. In the PRC counsel's opinion, the defects on the lease property interest would not constitute any practical impediment on the public listing of the Company.
- ii. Pacific (Panyu) Textiles Limited is a wholly-owned subsidiary of the Group.

14.	A warehouse at Liuyou Company, Hexing Road, Changsha Village, Hengli Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	The property comprises a single-story warehouse building built in about 2002. The property has a gross floor area of about 5,000 sq.m.	The property is leased by Pacific (Panyu) Textiles Limited from 陳玉君 (Chen Yu Jun), an independent third party, for a term from September 9, 2006 to March 8, 2007 at a monthly rent of RMB51,700. The property is occupied by the Group as warehouse.	No commercial value
-----	---	---	--	---------------------

Note:

- i. The PRC legal opinion states, *inter alia*, the follows:
 1. The realty title certificate of the property has not been provided. According to the relevant laws and regulations, if the lessor does not possess the title of the property or the owner's authorization to lease the property, the leasing may subject to dispute raised by third parties.
 2. The lease agreement has not been registered with the authority. According to the relevant regulations on land use rights registration, the effectiveness of the lease agreement will not be affected due to the non-registration of the agreement. However, the entering parties of the agreement may subject to dispute raised by third parties who have properly registered their agreements on the same property.
 3. According to the Company, if warehouse removal were necessary due to the property title defect or absence of registration of the lease agreement with the authority, the Company would be able to relocate its warehouse into similar replacement property having proper legal titles in the locality. In the PRC counsel's opinion, the defects on the lease property interest would not constitute any practical impediment on the public listing of the Company.
- ii. Pacific (Panyu) Textiles Limited is a wholly-owned subsidiary of the Group.

	<u>Property</u>	<u>Description</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at February 28, 2007</u>
15.	No. 519 First Street, Wanqingsha Town, Nansha District, Guangzhou City, Guangdong Province, the PRC	The property comprises 2 single-storey warehouse buildings built in about 1992. The property has a gross floor area of about 1,000 sq.m.	The property is leased by Pacific (Panyu) Textiles Limited from 番禺萬頃沙糧 食管理所(Food Administration Office of Panyu Wanqingsha Town), an independent third party on short term basis from June 1, 2005 at a monthly rent of RMB7,000. The property is occupied by the Group as warehouse.	No commercial value

Notes:

- i. The PRC legal opinion states, *inter alia*, the follows:
 1. The realty title certificate of the property has not been provided. According to the relevant laws and regulations, if the lessor does not possess the title of the property or the owner's authorization to lease the property, the leasing may subject to dispute raised by third parties.
 2. The lease agreement has not been registered with the authority. According to the relevant regulations on land use rights registration, the effectiveness of the lease agreement will not be affected due to the non-registration of the agreement. However, the entering parties of the agreement may subject to dispute raised by third parties who have properly registered their agreements on the same property.
 3. According to the Company, if warehouse removal were necessary due to the property title defect or absence of registration of the lease agreement with the authority, the Company would be able to relocate its warehouse into similar replacement property having proper legal titles in the locality. In the PRC counsel's opinion, the defects on the lease property interest would not constitute any practical impediment on the public listing of the Company.
- ii. Pacific (Panyu) Textiles Limited is a wholly-owned subsidiary of the Group.

Group VII – Property interest leased and occupied by the Group in the United Kingdom

16.	Third and Fourth Floors, 47 Dorset Street, London, W1V 7ND, United Kingdom	The property comprises the whole of the 3rd and 4th floors of a five-storey building (excluding a single-storey basement) completed in around 1801. The property has a total gross floor area of approximately 667 sq.ft.	The property is leased by Pacific/Textured Jersey Limited from The Trustees of the Portman Estate, an independent third party, for a term of five years from November 23, 2006 at an annual rent of £15,300, exclusive of Value Added Tax, and service and insurance costs. The rent is reviewable to the then open market rent on June 24, 2008. The property is occupied by the Group as office.	No commercial value
-----	---	--	--	------------------------

Notes:

1. According to the land registry, the owner of the property is The Portman Estate Nominees (One) Limited and Portman Estate Nominees (Two) Limited.
2. According to the Company, Pacific/Textured Jersey Limited is a wholly-owned subsidiary of the Group.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1. MEMORANDUM OF ASSOCIATION

The Memorandum was adopted on January 26, 2007 and states, *inter alia*, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Cayman Islands Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VII in the section headed "Documents available for inspection."

2. ARTICLES OF ASSOCIATION

The Articles of Association of the Company were adopted on January 26, 2007 and include provisions to the following effect:

2.1. Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles of Association is HK\$50,000 divided into 50,000,000 shares of HK\$0.001 each.

2.2. Directors

2.2.1. Power to allot and issue Shares

Subject to the provisions of the Cayman Islands Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Cayman Islands Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may be issued on terms that it is, or at the option of the Company or the holder thereof is, liable to be redeemed on such terms and in such manner as the Directors may deem fit.

2.2.2. Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Cayman Islands Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Islands Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

2.2.3. Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

2.2.4. Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

2.2.5. Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

2.2.6. Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates (including any person who would be deemed to be an “associate” of the Director under the Listing Rules) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (a) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

- (d) any proposal concerning any other company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that the Director and any of his associates, are not in aggregate beneficially interested in five percent or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights; and
- (e) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (i) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;
 - (ii) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
 - (iii) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

2.2.7. Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

2.2.8. Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution, at any time, remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (a) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (b) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (c) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (d) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (e) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (f) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (g) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

2.2.9. Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution.

2.2.10. Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3. Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4. Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Islands Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person (or in the case of a corporation, by its duly authorized representative) or by proxy may demand a poll.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5. *Alteration of Capital*

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- 2.5.1. consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- 2.5.2. cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Cayman Islands Companies Law; and
- 2.5.3. sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Islands Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Cayman Islands Companies Law.

2.6. *Special resolution — majority required*

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Islands Companies Law and shall include a unanimous written resolution of all members, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7. *Voting rights (generally, on a poll and right to demand a poll)*

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorized representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorized in such circumstances to do so and such person may vote on a poll by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required under the Listing Rules. A poll may be demanded by:

- 2.7.1. the chairman of the meeting; or
- 2.7.2. at least five members of the Company present in person (or in the case of a corporation, by its duly authorized representative) or by proxy and entitled to vote; or
- 2.7.3. any member or members of the Company present in person (or in the case of a corporation, by its duly authorized representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members of the Company having the right to attend and vote at the meetings; or

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

2.7.4. any member or members of the Company present in person (or in the case of a corporation, by its duly authorized representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

If a recognized clearing house (or its nominee) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee) which he represents as that recognized clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

2.8. Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorize) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.9. Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Islands Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Islands Companies Law or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10. Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

2.11. Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange and approved by the Board.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favor of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12. Power of the Company to purchase its own Shares

The Company is empowered by the Cayman Islands Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

2.13. Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14. Dividends and reserves

Subject to the Cayman Islands Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by check or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every check or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such check or warrant by the bank on which it is drawn shall operate as a good

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such checks for dividend entitlements or dividend warrants by post if such checks or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending checks for dividend entitlements or dividend warrants after the first occasion on which such a check or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15. Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid provided always that the Chairman of the meeting may exercise his discretion in accordance with the Articles of Association.

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16. Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 percent per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 percent per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17. Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$1.00 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18. Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.4 above.

2.19. Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20. Winding up

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Islands Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Cayman Islands Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21. *Untraceable members*

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if and provided that: (i) all checks or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member or person entitled to such shares by death, bankruptcy or operation of law; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1. *Introduction*

The Cayman Islands Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Islands Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Islands Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2. *Incorporation*

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on October 12, 2004 under the Cayman Islands Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

3. *Share capital*

The Cayman Islands Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Islands Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account.” At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Islands Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Islands Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Islands Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Islands Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
--

4. *Dividends and distributions*

With the exception of section 34 of the Cayman Islands Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Islands Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

5. *Shareholders' suits*

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6. *Protection of minorities*

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7. *Disposal of assets*

The Cayman Islands Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8. *Accounting and auditing requirements*

The Cayman Islands Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and

APPENDIX V	SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
-------------------	--

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9. Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Cayman Islands Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10. Inspection of books and records

Members of a company will have no general right under the Cayman Islands Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11. Special resolutions

The Cayman Islands Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12. Subsidiary owning shares in parent

The Cayman Islands Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 percent in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

14. *Take-overs*

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 percent of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

15. *Indemnification*

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

16. *Liquidation*

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

17. *Stamp duty on transfers*

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

18. *Taxation*

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of twenty years from the 16th day of November, 2004.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW
--

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

19. *Exchange control*

There are no exchange control regulations or currency restrictions in the Cayman Islands.

20. *General*

Maples and Calder, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Islands Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY**1. *Incorporation of the Company***

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Law on October 12, 2004. The Company has established a place of business in Hong Kong at 7th Floor, Block B, Eastern Sea Industrial Building, 48–56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong and has been registered with the Registrar of Companies in Hong Kong as an overseas company in Hong Kong under Part XI of the Companies Ordinance. Mr. Lam Hing Chau Leon has been appointed as the authorized person of the Company for the acceptance of service of process and any notice required to be served on the Company in Hong Kong. The address for acceptance of service of process and any notice required to be served on the Company in Hong Kong is 7th Floor, Block B, Eastern Sea Industrial Building, 48–56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the applicable laws of the Cayman Islands and its constitutive documents are comprised of the Memorandum and Articles. A summary of certain parts of its constitution and relevant aspects of the Cayman Islands Companies Law is set out in Appendix V to this prospectus.

2. *Changes in share capital of the Company*

On June 6, 2005, CGPE IV, L.P. transferred 3,585 Shares to Capital International Private Equity Fund IV, L.P. at US\$24.27 per Share.

On May 19, 2006, Far East Asia Limited transferred 500,000 Shares to Mr. Lau Yiu Tong, at nil consideration. The 500,000 Shares were previously held on trust by Far East Asia Limited for the benefit of Mr. Lau Yiu Tong pursuant to a declaration of trust dated November 8, 2004.

Pursuant to the written resolutions of the members of the Company passed on April 27, 2007, the authorized share capital of the Company was increased from HK\$50,000 divided into 50,000,000 Shares of par value HK\$0.001 each to HK\$5,000,000 divided into 5,000,000,000 Shares of par value HK\$0.001 by the creation of an additional 4,950,000,000 Shares ranking *pari passu* in all respects with the existing Shares.

Immediately following completion of the Global Offering and Capitalization Issue, but assuming the Over-allotment option is not exercised, the authorized capital of the Company will be HK\$5,000,000 divided into 5,000,000,000 Shares and the issued share capital will be HK\$1,432,936 divided into 1,432,936,000 Shares, all fully paid or credited as fully paid and 3,567,064,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option, any options which may be granted under the Share Option Scheme or the general mandate to issue Shares referred to in the paragraph headed “Written resolutions of the members of the Company passed on April 27, 2007” in this Appendix, there is no present intention to issue any of the authorized but unissued share capital of the Company and no issue of Shares which would effectively alter the control of the Company will be made without the prior approval of members in a general meeting.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company within the two years immediately preceding the date of this prospectus.

3. *Written resolutions of the members of the Company passed on April 27, 2007*

Pursuant to the written resolutions of the members of the Company passed on April 27, 2007:

- (a) the authorized share capital of the Company was increased from HK\$50,000 to HK\$5,000,000 by the creation of an additional 4,950,000,000 Shares ranking *pari passu* in all respects with the then existing issued Shares;
- (b) conditional on the same conditions as stated in the paragraph headed “Conditions of the Public Offer” under the section headed “Structure of the Global Offering” in this prospectus being fulfilled or waived:
 - (i) the Global Offering (including the Over-allotment Option) was approved and the Directors were authorized to allot and issue up to 411,969,000 additional Shares comprising 358,234,000 Shares to be issued for subscription and up to 53,735,000 Shares to be issued if the Over-allotment Option is exercised in full;
 - (ii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorized to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant thereto and to take all such steps and attend all such matters as they consider necessary, desirable or expedient to implement the Share Option Scheme, including without limitation: (aa) administering the Share Option Scheme; (bb) modifying and/or amending the Share Option Scheme from time to time provided that such modification and/or amendment was effected in accordance with the provisions of the Share Option Scheme relating to modification and/or amendment and the requirements of the Listing Rules; (cc) granting options under the Share Option Scheme and allotting and issuing from time to time any Shares pursuant to the exercise of the options that may be granted under the Share Option Scheme with an aggregate number not exceeding 10% of the total nominal value of Shares in issue as at the Listing Date, immediately following the completion of the Global Offering (excluding any Shares that may be issued upon the exercise of the Over-allotment Option) and the Capitalization Issue, representing 143,293,600 Shares; and (dd) making application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme; and
 - (iii) the share premium account of the Company was approved to be credited as a result of the issue of the Offer Shares pursuant to the Global Offering; and conditional on the share premium account of the Company being credited as a result of the issue of Offer Shares pursuant to the Global Offering, an amount of HK\$1,063,955 (then standing to the credit of the share premium account of the Company) be capitalized and applied in full at par value of a total of 1,063,954,980 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at close of business on May 1, 2007 (or as they may direct in writing) in the following manner:

Name of shareholder	No. of Shares to be allotted and issued
Capital International Private Equity Fund IV, L.P.	118,423,899
CGPE IV, L.P.	3,940,101
Effective Approach Technology Limited	29,700,000
Far East Asia Limited	396,000,000
Fifth Element Enterprises Limited	99,000,000
Hollywood Pacific Limited	99,000,000
Lau Yiu Tong	49,500,000
Silver Bay International Holdings Limited	169,390,980
Top Strong Holdings Limited	99,000,000
Total	<u>1,063,954,980</u>

- (c) a general unconditional mandate was given to Directors to allot, issue and deal with (including the power to grant any offers, agreements or option which would or might require shares to be issued, allotted or disposed of, whether during continuance of such mandate or thereafter) Shares other than pursuant to the Global Offering, issued as a result of rights issue, scrip dividend or similar arrangement pursuant to the Articles from time to time, upon the exercise of rights of subscription or conversion attached to any warrants of the Company or upon the exercise of rights of subscription attached to any options which may be granted pursuant to the Share Option Scheme or similar arrangement or a specific authority granted by the shareholders of the Company, with an aggregate nominal value not exceeding (i) 20% of the aggregate nominal value of the share capital of the Company in issue and to be issued immediately following completion of the Global Offering (excluding any Shares which may be issued upon the exercise of the Over-allotment Option) and the Capitalization Issue and (ii) the aggregate nominal value of Shares repurchased under the authority granted to the Directors as referred to in paragraph (d) below, until:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law of the Cayman Islands to be held; or
 - (iii) the revocation or variation by an ordinary resolution of the members in a general meeting,
- whichever is the earliest; and
- (d) a general unconditional mandate (the “Repurchase Mandate”) was given to the Directors authorising them to exercise all powers of the Company to repurchase Shares on the Stock Exchange or any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Listing Rules or equivalent rules or regulations of such other stock exchange, with an aggregate nominal value of not exceeding 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued immediately following completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Capitalization Issue, until:
- (i) the conclusion of the next annual general meeting of the Company;

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law of the Cayman Islands to be held; or
- (iii) the revocation or variation by an ordinary resolution of the members in a general meeting,

whichever is the earliest.

4. Corporate reorganization

Please refer to the section headed “Corporate Structure and History” in this prospectus.

5. Changes in share capital of subsidiaries of the Company

The Company’s subsidiaries are referred to in the Accountants’ Report, which is set out in Appendix I to this prospectus.

In addition, the following alterations in the share capital (or registered capital, as the case may be) of the Company’s subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

(a) Solid Ally International Limited

On April 18, 2006, Solid Ally International Limited was incorporated under the laws of the British Virgin Islands with an authorized capital of US\$50,000. By a written resolution of the directors of the company dated May 18, 2006, the company’s authorized capital was amended from US\$50,000 comprising of 50,000 shares of a par value of US\$1.00 per share to HK\$50,000 comprising of 50,000 shares of a par value of HK\$1.00 per share. On the same date, one share of a par value of HK\$1.00 per share was allotted and issued to the Company for a cash consideration of HK\$1.00, fully paid up.

(b) Pacific SPM Holdings Ltd.

On July 22, 2005, Pacific SPM Holdings Ltd. was incorporated under the laws of the British Virgin Islands with an authorized capital of HK\$50,000. On July 26, 2005, one share of a par value of HK\$1.00 was allotted and issued to the Company for a cash consideration of HK\$1.00, fully paid up.

(c) Lehan Resources Limited

On March 28, 2006, Lehan Resources Limited was incorporated under the laws of the British Virgin Islands with an authorized capital of 50,000 shares of no par value. On March 28, 2006, one share of no par value was allotted and issued to the Company for a cash consideration of HK\$1.00, fully paid up.

(d) Pacific/Textured Jersey Ltd.

On February 11, 2005, Pacific/Textured Jersey Ltd. was incorporated under the laws of England and Wales with an authorized capital of £100 and one share of a par value of £1.00, fully paid up was transferred from the subscriber of the company to Ms. Louise Nicholson for a cash consideration of £1.00. On April 22, 2005, 99 shares of a par value of £1.00 per share were allotted and issued to Ms. Louise Nicholson for a cash consideration of £99, fully paid up. On April 23, 2005, Ms. Louise Nicholson executed a declaration of trust and declared and acknowledged that she held the 100 shares in Pacific/Textured Jersey Ltd. as nominee for Pacific Textiles Limited,

the beneficial owner of such shares. On April 1, 2006, the 100 shares in Pacific/Textured Jersey Ltd. held by Ms. Louise Nicholson were transferred to Lehan Resources Limited for a cash consideration of £100.

(e) Textured Jersey Lanka (Private) Limited

On August 20, 2005, 61,332,000 shares of a par value of Rs. 10 per share were allotted and issued to Pacific Textured Jersey Holdings Ltd. and Linea Clothing (Private) Limited for a total cash consideration of US\$6,000,000, fully paid up, of which 31,892,640 shares were allotted and issued to Pacific Textured Jersey Holdings Ltd. and 29,439,360 shares were allotted and issued to Linea Clothing (Private) Limited. On December 30, 2005, 15,007,500 shares of a par value of Rs. 10 per share were allotted and issued to Pacific Textured Jersey Holdings Ltd. and Linea Clothing (Private) Limited for a total cash consideration of US\$1,500,000, fully paid up, of which 7,803,900 shares were allotted and issued to Pacific Textured Jersey Holdings Ltd. and 7,203,600 shares were allotted and issued to Linea Clothing (Private) Limited. On January 10, 2006, the authorized capital of Textured Jersey Lanka (Private) Limited was increased from Rs. 1,000,000,000 to Rs. 3,000,000,000 by the creation of 200,000,000 new shares of a par value of Rs. 10 per share. On January 19, 2007, 1 share in Textured Jersey Lanka (Private) Limited held by Mr. Mahesh Dayala Amalean was transferred to Linea Clothing (Private) Limited for a cash consideration of Rs. 10.

(f) Pacific (Panyu) Textiles Limited

On July 27, 2005, the total investment amount of PPTL was increased from US\$80,000,000 to US\$160,000,000 and its registered capital was increased by US\$27,000,000, from US\$28,700,000 to US\$55,700,000. On November 14, 2006, the increase in registered capital of PPTL in the sum of US\$27,000,000 was fully paid up, in cash.

6. Repurchase by the Company of its own Shares

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its Shares:

(a) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up) on the Stock Exchange must be approved in advance by an ordinary resolution of the members in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions of the members of the Company passed on April 27, 2007, a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase Shares on the Stock Exchange or any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Listing Rules or equivalent rules or regulations of such other stock exchange, with an aggregate nominal value of not exceeding 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued immediately following completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Capitalization Issue, until:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law of the Cayman Islands to be held; or
- (iii) the revocation or variation by an ordinary resolution of the members in a general meeting,

whichever is the earliest.

(b) Number of Shares which may be repurchased

The exercise in full of the Repurchase Mandate, on the basis of 1,432,936,000 Shares in issue immediately following completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Capitalization Issue, could accordingly result in up to 143,293,600 Shares being repurchased by the Company during the period prior to (1) the conclusion of the next annual general meeting of the Company; (2) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law of the Cayman Islands to be held; or (3) the revocation or variation by ordinary resolution of the members in a general meeting, whichever is the earliest.

(c) Source of funds

Repurchases by the Company must be funded out of funds legally available for such purpose in accordance with the Memorandum and Articles, the application laws and regulations of the Cayman Islands and the Listing Rules. The Company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement other than in accordance with the trading rules of the Stock Exchange from time to time. Subject to the foregoing, any repurchases by the Company may be made out of its funds which would otherwise be available for dividend or distribution or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase.

(d) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and the members for the Directors to have a general authority from the members to enable the Company to repurchase in the market. Such repurchases, may depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and its members.

(e) Impact of Repurchase

On the basis of the current financial position of the Company as disclosed in this prospectus and taking into account its current working capital position, the Directors consider that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position as compared with the position disclosed in the prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(f) Status of repurchased securities

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relevant certificates must be cancelled and destroyed. Pursuant to the applicable laws of the Cayman Islands, a company's repurchased shares shall be treated as cancelled and the amount of that company's issued share capital shall be reduced by the aggregate nominal amount of the value of the repurchased shares accordingly, except that the authorized share capital of that company shall not be reduced.

(g) Directors' intention to sell Shares

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates currently intends, in the event the Repurchase Mandate is exercised, to sell Shares to the Company or its subsidiaries.

(h) Directors' undertakings

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate only in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

(i) Connected persons

No connected person (as defined in the Listing Rules) of the Company has notified the Company that it has a present intention to sell any Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

(j) Takeovers Code

If, as a result of any repurchase of Shares, a member's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a member of the Company, or a group of members of the Company acting in concert (as defined in the Takeovers Code), depending on the level of increase of such members' interest, could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as disclosed, the Directors are not aware of any consequences which may arise under the Takeovers Code if the Repurchase Mandate is exercised.

(k) Share repurchase made by the Company

No repurchase of Shares has been made by the Company within the six months immediately preceding the date of this prospectus.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP**1. Summary of material contracts**

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



- (a) a joint venture and cooperation agreement dated April 26, 2006 entered into between Fillattice S.p.A. and Pacific Textiles Limited, amongst other things, the parties agreed to cooperate, through their respective affiliates, to establish Fillattice-Pacific Ltd., a joint venture company incorporated and based in Hong Kong, to carry out promotion, marketing, advertising, distribution and sales of warp knitted fabric as well as products development activities, sourcing and trading of raw materials;
- (b) a joint venture agreement dated June 29, 2005 entered into among 住江織物株式會社 (Suminoe Textile Co., Ltd.), the Company and 丸紅株式會社 (Marubeni Corporation) in which, among other things, the parties agreed to establish SPM Automotive Textile Co., Ltd., a joint venture company incorporated in the PRC, to produce and sell car related textiles products;

- (c) letters dated January 25, 2007 and April 25, 2007 from the Company to (i) Capital International Private Equity Fund IV, L.P., (ii) Capital International, Inc., (iii) CGPE IV, L.P., (iv) Far East Asia Limited, (v) Silver Bay Holdings International Limited, (vi) Fifth Element Enterprises Limited, (vii) Hollywood Pacific Limited, (viii) Top Strong Holdings Limited, (ix) Effective Approach Technology Limited, (x) Ip Ping Im, (xi) Choi Kin Chung, (xii) Bill W.T. Lam, (xiii) Wan Wai Loi, (xiv) Paul K.P. Tsang and (xv) Clement K.M. Lam in relation to, among other things, the termination and waivers of certain rights under the shareholders' agreement between the parties dated December 14, 2004;
- (d) the Public Offer Underwriting Agreement; and
- (e) the Deed of Indemnity as further described in the paragraph headed "Other Information – 1. Deed of Indemnity" in this Appendix.

2. *Intellectual property rights*

(a) **Trademarks**

As at the Latest Practicable Date, the Group had registered the following trade marks:

<u>Trademark</u>	<u>Registered owner</u>	<u>Place of registration</u>	<u>Registration number</u>	<u>Class</u>	<u>Period of validity</u>
	Pacific Textiles Limited	Hong Kong	2001B02230	24	June 22, 2000– June 22, 2017
	Pacific Textiles Limited	US	2606634	24	August 13, 2002– August 13, 2012

(b) **Domain names**

As at the Latest Practicable Date, the Group had registered the following domain names:

<u>Domain Name</u>	<u>Registrant</u>	<u>Period of validity</u>
pacific-textiles.com	Pacific Textiles Limited	November 15, 1997–November 14, 2007

Save as aforesaid, there are no other trade marks, patents or other intellectual or industrial property rights which are material to the Group's business.

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

1. *Disclosure of interests*(a) **Interests and/or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations following the Global Offering**

Immediately following the completion of the Global Offering (excluding any Shares which may be issued upon the exercise of the Over-allotment Option) and the Capitalization Issue, the interests and/or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange, in each case once the Shares are listed, will be as follows:

Long positions in shares, underlying shares and debentures

<u>Name of Director/ Chief Executive</u>	<u>Name of company</u>	<u>Nature of interest</u>	<u>Number of securities</u>	<u>Approximate percentage interest in the company</u>
CHOI Kin Chung	The Company	Founder of a discretionary trust ¹	171,102,000	11.94%
IP Ping Im	The Company	Interest of a controlled corporation ²	400,000,000	27.91%
LAM King Man	The Company	<ul style="list-style-type: none"> • Interest of a controlled corporation • Interest of spouse³ 	30,000,000	2.09%
LAM Wing Tak	The Company	Interest of a controlled corporation ⁴	100,000,000	6.98%
LAU Yiu Tong	The Company	Beneficial owner	50,000,000	3.49%
TSANG Kang Po	The Company	<ul style="list-style-type: none"> • Interest of a controlled corporation • Interest of spouse⁵ 	100,000,000	6.98%
WAN Wai Loi	The Company	<ul style="list-style-type: none"> • Interest of a controlled corporation • Interest of spouse⁶ 	100,000,000	6.98%

Notes:

1. These securities in the Company are directly held by Silver Bay International Holdings Limited, whose issued share capital is wholly-owned by Trustcorp Limited, the trustee of the United Harmony Trust, a discretionary trust. For the purposes of the SFO, Mr. Choi Kin Chung is the founder of the United Harmony Trust.
2. These securities in the Company are directly held by Far East Asia Limited, whose issued share capital is wholly-owned by Mr. Ip Ping Im.

3. These securities in the Company are directly held by Effective Approach Technology Limited, whose issued share capital is 50% owned by Dr. Lam King Man and 50% owned by the spouse of Dr. Lam King Man.
4. These securities in the Company are directly held by Fifth Element Enterprises Limited, whose issued share capital is wholly-owned by Mr. Lam Wing Tak.
5. These securities in the Company are directly held by Top Strong Holdings Limited, whose issued share capital is 50% owned by Mr. Tsang Kang Po and 50% owned by the spouse of Mr. Tsang Kang Po.
6. These securities in the Company are directly held by Hollywood Pacific Limited, whose issued capital is 25% owned by Mr. Wan Wai Loi and 25% owned by the spouse of Mr. Wan Wai Loi.

Short positions in shares, underlying shares and debentures

<u>Name of Director/ Chief Executive</u>	<u>Name of company</u>	<u>Nature of interest</u>	<u>Number of securities¹</u>	<u>Approximate percentage interest in the company</u>
LAM Wing Tak	The Company	Interest of a controlled corporation ²	53,735,000	3.75%

Notes:

1. These securities in the Company will be the subject matter of the Stock Borrowing Agreement (if any).
2. These securities in the Company are directly held by Fifth Element Enterprises Limited, whose issued share capital is wholly-owned by Mr. Lam Wing Tak.

(b) Interests and/or short positions of the substantial shareholders in the Shares and underlying Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as any Director or the chief executive of the Company is aware, immediately following the completion of the Global Offering (excluding any Shares which may be issued upon the exercise of the Over-allotment Option) and the Capitalization Issue, the following persons (not being Directors or chief executive of the Company) will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be (directly or indirectly) interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long position in Shares and underlying Shares of the Company

<u>Name of substantial shareholder</u>	<u>Name of company</u>	<u>Nature of interest</u>	<u>Number of securities</u>	<u>Approximate percentage interest in the company</u>
Chiu Bo Lan	The Company	<ul style="list-style-type: none"> • Interest of a controlled corporation¹ • Interest of a spouse² 	100,000,000	6.98%
Hollywood Pacific Limited	The Company	Beneficial owner ¹	100,000,000	6.98%
Lam Wai Yee	The Company	Interest of spouse ³	400,000,000	27.91%
Far East Asia Limited	The Company	Beneficial owner ⁴	400,000,000	27.91%
Wong Bik Ha	The Company	Interest of spouse ⁵	100,000,000	6.98%
Fifth Element Enterprises Limited	The Company	Beneficial owner ⁶	100,000,000	6.98%
Law Oi Mui	The Company	Interest of spouse ⁷	171,102,000	11.94%
Trustcorp Limited	The Company	Trustee ⁸	171,102,000	11.94%

<u>Name of substantial shareholder</u>	<u>Name of company</u>	<u>Nature of interest</u>	<u>Number of securities</u>	<u>Approximate percentage interest in the company</u>
Silver Bay International Holdings Limited	The Company	Beneficial owner ⁸	171,102,000	11.94%
Wong Mei Ling	The Company	• Interest of a controlled corporation ⁹ • Interest of spouse ¹⁰	100,000,000	6.98%
Top Strong Holdings Limited	The Company	Beneficial owner ⁹	100,000,000	6.98%
The Capital Group Companies, Inc.	The Company	Interest of a controlled corporation	123,600,000	8.63%
Capital Group International, Inc.	The Company	Interest of a controlled corporation	123,600,000	8.63%
Capital International, Inc.	The Company	• Interest of a controlled corporation • Investment manager ¹¹	123,600,000	8.63%
Capital International Investments IV, LLC	The Company	Interest of a controlled corporation ¹¹	123,600,000	8.63%
Capital International Investments IV, L.P.	The Company	Interest of a controlled corporation ¹¹	119,620,100	8.35%
Capital International Private Equity Fund IV, L.P.	The Company	Beneficial owner ¹¹	119,620,100	8.35%

Notes:

- Hollywood Pacific Limited is 25% owned by Mr. Wan Wai Loi and 25% owned by Ms. Chiu Bo Lan, the spouse of Mr. Wan Wai Loi.
- Ms. Chiu Bo Lan is the spouse of Mr. Wan Wai Loi, a Director.
- Ms. Lam Wai Yee is the spouse of Mr. Ip Ping Im, a Director.
- Far East Asia Limited is wholly-owned by Mr. Ip Ping Im, a Director.
- Ms. Wong Bik Ha is the spouse of Mr. Lam Wing Tak, a Director.
- Fifth Element Enterprises Limited is wholly-owned by Mr. Lam Wing Tak, a Director.
- Ms. Law Oi Mui is the spouse of Mr. Choi Kin Chung, a Director.
- Silver Bay International Holdings Limited is wholly-owned by Trustcorp Limited, the trustee of the United Harmony Trust, a discretionary trust. For the purposes of the SFO, Mr. Choi Kin Chung, a Director, is the founder of the United Harmony Trust.
- Top Strong Holdings Limited is 50% owned by Mr. Tsang Kang Po and 50% owned by Ms. Wong Mei Ling, the spouse of Mr. Tsang Kang Po.
- Ms. Wong Mei Ling is the spouse of Mr. Tsang Kang Po, a Director.
- Capital International Private Equity Fund IV, L.P. is a private equity fund managed by Capital International, Inc. Capital International Investments IV, L.P. is the general partner of Capital International Private Equity Fund IV, L.P. The general partner of Capital International Investments IV, L.P. is Capital International Investments IV, LLC, which is also the general partner of CGPE IV L.P., an employee securities fund formed to invest side-by-side with Capital International Private Equity Fund IV, L.P. Capital International, Inc. is the managing member of Capital International Investments IV, LLC.

Short position in Shares and underlying Shares

<u>Name of substantial shareholder</u>	<u>Name of company</u>	<u>Nature of interest</u>	<u>Number of securities¹</u>	<u>Approximate percentage interest in the company</u>
Fifth Element Enterprises Limited	The Company	Beneficial owner ²	53,735,000	3.75%

Notes:

1. These securities in the Company will be the subject matter of the Stock Borrowing Agreements (if any).
2. Fifth Element Enterprises Limited is wholly-owned by Mr. Lam Wing Tak, a Director.

Long position in shares and underlying shares of any other member in the Group

<u>Name of member of the Group</u>	<u>Name of substantial shareholder</u>	<u>Nature of interest</u>	<u>Number of securities</u>	<u>Approximate percentage interest in the company</u>
Textured Jersey Lanka (Private) Limited	Linea Clothing (Private) Limited ¹	Beneficial owner ²	76,666,992	48%

Notes:

1. Linea Clothing (Private) Limited is owned as to approximately 66.7% by MAS Holdings (Private) Limited and approximately 33.3% by Brandix Lanka (Private) Limited.
2. Textured Jersey Lanka (Private) Limited is owned as to approximately 52% by Pacific Textured Jersey Holdings Ltd., a wholly-owned subsidiary of the Company, and approximately 48% by Linea Clothing (Private) Limited.

2. Particulars of Directors' service agreements

Each of the executive Directors has entered into a service agreement with the Company pursuant to which he has agreed to act as executive Director for an initial term of two years with effect from April 1, 2007. Each of these service agreements may be terminated by either party by giving to the other party at least six month's prior notice in writing.

Save as disclosed above, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Directors' remuneration

Directors' remuneration and benefits in kind of HK\$10,901,000 in aggregate were paid and granted by the Group to the Directors in respect of the financial year ended March 31, 2006.

Under the current arrangements, the Directors are expected to receive an aggregate remuneration and benefits in kind of approximately HK\$25,958,000 from the Group for the financial year ended March 31, 2007.

In January 2007, Dr. Lam King Man purchased the ordinary membership of Yau Yat Chuen Garden City Club Ltd., previously provided by the Group as part of his fringe benefit, from Pacific Textiles Limited for a consideration of HK\$280,000 which is the initial acquisition cost for such membership.

4. Contingent liabilities and guarantees

The Directors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to the Group.

5. *Agency fees or commissions*

Save as disclosed in the section headed “Underwriting” of this prospectus, no commission has been paid or is payable (except commission to sub-underwriters, if any) to any persons for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares or debentures of the Company within the two years immediately preceding the date of this prospectus.

No commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of the Group within the two years immediately preceding the date of this prospectus.

6. *Disclaimers*

Save as disclosed in this prospectus:

- (a) none of the Directors or the chief executive of the Company has any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange, in each case once the Shares are listed;
- (b) and taking no account of Shares which may be taken up under the Global Offering, the Directors and the chief executive of the Company are not aware of any person (not being a Director or chief executive of the Company) who will, immediately following the completion of the Global Offering (excluding any Shares which may be issued upon the exercise of the Over-allotment Option) and the Capitalization Issue, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be (directly or indirectly) interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;
- (c) none of the Directors or experts referred to in the paragraph headed “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (e) and save in connection with the Underwriting Agreements, none of the experts referred to under the heading “Consents of experts” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (f) and so far as is known to the Directors, none of the Directors or their respective associates (as defined under the Listing Rules) or members of the Company which to the knowledge of the Directors own more than 5% of the issued share capital of the Company has any interests in the five largest customers or the five largest suppliers of the Group.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by a written resolution of the members of the Company passed on April 27, 2007.

1. Purpose

The purpose of the Share Option Scheme is to provide the Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to Eligible Persons (as defined in paragraph 2 below).

2. Participants

The Board may grant options to any “Eligible Person”, namely an employee, director or non-executive director (including INEDs) of any Member of the Group.

“Member of the Group” means the Company, any holding company, subsidiaries or affiliates of the Company or other companies or associated companies of the Company which the Board determines will be subject to the Share Option Scheme.

3. Maximum number of Shares

(a) Overriding limit

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any other scheme must not exceed 30% of the Shares of the Company in issue from time to time (“**Overriding Limit**”). No options may be granted under the Share Option Scheme or any other schemes if this will result in the Overriding Limit being exceeded.

(b) 10% limit

Subject to the Overriding Limit and paragraphs 3(c) and 3(d) below, the total number of Shares which may be issued upon exercise of all options (excluding options which have lapsed in accordance with the terms of the Share Option Scheme and any other schemes) to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 10% of the Shares in issue as at the Listing Date, representing 143,293,600 Shares.

(c) Refreshing the 10% limit

The Company may “refresh” the 10% limit under paragraph 3(b) above at any time subject to prior shareholder approval in general meeting. However, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any options to be granted under any other scheme under the limit as “refreshed” shall not exceed 10% of the Shares of the Company in issue at the date on which shareholders approve the “refreshed” limit (where applicable). Options previously granted under the Share Option Scheme and any other scheme (including those outstanding, cancelled, lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the limit as “refreshed”.

(d) Exceeding the 10% limit

The Company may grant options to any Eligible Person(s) specifically identified by it which would cause the 10% limit under paragraph 3(b) above (including, for the avoidance of doubt, any such limit as “refreshed” under paragraph 3(c) above) to be exceeded, but only with the prior approval of the shareholders in general meeting, and subject always to the Overriding Limit and the Individual Limit (as defined in paragraph 3(e) below).

(e) Individual limit

The total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Person (including exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue at the date of grant of the option (“**Individual Limit**”). Any further grants of options to an Eligible Person which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to that Eligible Person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be subject to prior approval of the shareholders in general meeting with such Eligible Person and his associates (as defined in the Listing Rules) abstaining from voting.

4. Grant of options to connected persons

Each grant of options to a Director (including an INED), chief executive or substantial shareholder (as defined in the Listing Rules) of the Company, or any of their respective associates, must be approved by the INEDs (excluding any INED who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder or an INED, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the Shares in issue; and
- (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such grant of options must be approved by the shareholders in general meeting. Any shareholder who is a connected person (as defined under the Listing Rules) of the Company must abstain from voting in favor of the resolution to approve such grant of options.

5. Performance conditions

Unless the Board otherwise determines (on a case-by-case basis) and specifies in the offer of grant of an option to a grantee, a grantee is not required to achieve any performance conditions or targets before the grantee’s options can be exercised.

6. *Time of exercise of options and duration of Share Option Scheme*

(a) **General vesting period**

The general vesting period for options granted under the Share Option Scheme is set out in the table below unless the Board specifies a different vesting period under the terms of the offer. The option period will not be more than 10 years from the date of grant.

<u>Anniversary of grant date</u>	<u>Vesting</u>
First	20%
Second	20%
Third	20%
Fourth	20%
Fifth	20%

An option may be exercised to the extent that it has vested and any performance conditions or targets set by the Board have been met.

(b) **Duration of the Share Option Scheme**

The duration of the Share Option Scheme shall be ten years from the Listing Date.

7. *Exercise price and payment on grant*

(a) **Exercise price**

The exercise price for the Shares under the Share Option Scheme shall be the price determined by the Board and notified to the option holder which shall not be less than the higher of:

- (i) the average closing price of the Shares for the five business days immediately preceding the date of grant of the option as stated in the Stock Exchange's daily quotation sheets;
- (ii) the closing price of the Shares as stated on the Stock Exchange's daily quotations sheet of the Shares on the date of grant of the option; and
- (iii) the nominal value of the Shares.

(b) **Payment on grant**

Eligible Persons are not required to pay for the acceptance of an option granted to them.

8. *Rights attaching to the Shares*

(a) **Dividends and voting rights**

No dividends (including distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to an option that has not been exercised. Shares issued or transferred on the exercise of an option will rank equally in all respects with the Shares in issue on the date of issue or transfer. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of issue or transfer.

(b) Restrictions on transfer

Except for the transmission of an option on the death of an option holder to his/her personal representatives, options granted under the Share Option Scheme are personal to the grantee and neither the option nor any rights in respect of it may be transferred, assigned or otherwise disposed of by any option holder to any other person or entity. If an option holder transfers, assigns or disposes of any such option or rights, whether voluntarily or involuntarily, then the relevant option will immediately lapse.

9. Lapsing provisions**(a) Immediate lapse**

An option will lapse immediately on the earlier of (i) the tenth anniversary of the date the option was granted; (ii) breach of the transfer restrictions referred to in paragraph 8(b) above; and (iii) subject to paragraphs 9(b) to 9(e) below, the option holder ceasing to be an Eligible Person.

(b) Any circumstances

The Board may specify at the date of grant of the option any circumstances in which the option may lapse.

(c) Death, illness, retirement, redundancy or transfer

In the event of death, serious illness or injury, retirement, redundancy, transfer of the business or sale of the Member of the Group by which the option holder is employed or appointed, or any other circumstance which the Board decides, then any unvested options will lapse and any vested options must be exercised within 12 months or such longer period as the Board may determine. Any vested option not exercised within this period shall lapse.

(d) Resignation, misconduct or breach of contract

If an option holder resigns or if he or she is guilty of misconduct justifying the termination of his or her employment/appointment or if the option holder is in breach of any material term of his or her employment/appointment or any confidentiality agreement, non-competition agreement or non-solicitation agreement, then all options held by the option holder will lapse, whether the option is vested or not.

(e) Cessation of employment for any other reason

If an option holder ceases to be an employee for any other reason not set out in paragraphs 9(c) or 9(d) above, then any unvested options will immediately lapse and any vested options must be exercised within 30 days of the date of cessation of employment or such longer period as the Board may determine.

(f) Change of control, compromise or arrangement

In the event of a change of control of the Company or compromise or arrangement, an option holder may exercise an option to the extent it has vested within 30 days of the date of the relevant event subject to any conditions which must be satisfied. However, the above will not apply to the extent that an offer to exchange the option (in whole or in part) is made and accepted by the option holder or if the Board with the consent of the person acquiring Shares decides that the option will be automatically exchanged. Where an option is to be exchanged, the option holder will be granted a new option to replace the option granted under the Share Option Scheme but on the same terms and subject to the same rules.

(g) Winding-up

In the event of a voluntary winding-up or court sanctioned winding-up, vested options may be exercised within three months of the date of the resolution or the date of the winding-up order (whichever is applicable). All vested options not exercised within the three month period will lapse and unvested options will lapse at the end of the three month period.

(h) Cancellation of options

The Board may cancel any option only if (i) the option holder is paid an amount equal to fair market value of the Shares subject to the option less the exercise price (see paragraph 7 above); or (ii) the option holder is granted replacement options of equivalent value; or (iii) the Board makes such arrangements as the option holder may agree to compensate for the cancellation of the option.

10. Adjustments

If there is a special dividend, dividend in specie, demerger, capitalization of profits or reserves, rights issue, consolidation or subdivision of Shares or reduction of the share capital of the Company (or other variation of capital), the Board may make such adjustments (if any) as they consider reasonable to (i) the number of Shares, (ii) the kind of securities subject to the option; and/or (iii) the exercise price, as the auditors or independent financial adviser appointed by the Board shall certify in writing to the Board to be in their opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the notes thereto and the supplementary guidance issued on September 5, 2005 by the Stock Exchange, except where such adjustment is made on a capitalisation issue.

11. Amendments to the Share Option Scheme

The Board may amend any of the provisions of the Share Option Scheme (including, without limitation, amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions imposed by the provisions of the Share Option Scheme, other than those imposed by Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any option holder at that date).

The specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of option holders unless prior shareholder approval is obtained. Changes to the authority of the Board in relation to the alteration to any of the terms of the Share Option Scheme may only be made with the approval of the shareholders in general meeting.

Any amendment to the terms and conditions of the Share Option Scheme or the terms and conditions of an option which are of a material nature may only be made with the approval of the shareholders save where the amendments take effect automatically under the Share Option Scheme.

12. Termination and suspension**(a) Automatic termination**

The Share Option Scheme will terminate automatically at midnight on the day immediately before the 10th anniversary of the Listing Date.

(b) Termination by the Board

The Board may terminate the Share Option Scheme at any time by resolving that no further options shall be granted under the Share Option Scheme. Once terminated, no new offers to grant Options under the Scheme will be made and the Board may determine whether Options which have been previously granted but not yet exercised shall either continue to be subject to the terms of the Share Option Rules (which shall remain in full force and effect to the extent necessary to give effect to such Options) or be cancelled in accordance with paragraph 9(h) above.

(c) Suspension

The Board may in the event of specific and unusual circumstances (including but not limited to capital operations requiring adjustment or redefinition of the share capital of the Company or significant negative variations in the profit and loss statement or balance sheet of the Company) at any time suspend the exercise of outstanding options to the extent not contrary to relevant law. Each suspension(s) shall not be for more than three months. The Board shall give at least eight days written notice to the option holders specifying the starting date of suspension, its duration and the expected date of resumption of the relevant suspended rights.

13. Present status of the Share Option Scheme**(a) Application to the Listing Committee**

Application has been made to the Listing Committee for the listing of and permission to deal in Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme.

(b) Conditions to the Share Option Scheme

The Share Option Scheme is conditional on: (i) the Listing Committee granting (or agreeing to grant) approval (subject to such conditions as the Stock Exchange may impose) for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme and (ii) the commencement of the dealings in the Shares on the Stock Exchange.

If both of these conditions are not satisfied on or before the date following six months after the date the Share Option Scheme was conditionally adopted by the members of the Company, the Share Option Scheme shall forthwith determine, any option granted or agreed to be granted and any offer of such grant shall be of no effect and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option.

(c) Options granted

As at the Latest Practicable Date, no options have been granted or agreed to be granted under the Share Option Scheme.

(d) Disclosure

The Company shall disclose details of the Share Option Scheme in its annual and interim reports in accordance with the Listing Rules in force from time to time.

OTHER INFORMATION**1 Deed of Indemnity**

Far East Asia Limited, Silver Bay International Holdings Limited, Fifth Element Enterprises Limited, Hollywood Pacific Limited, Top Strong Holdings Limited, Effective Approach Technology Limited and Lau Yiu Tong (the “Indemnifiers”) have entered into a deed of indemnity dated April 28, 2007 (the “Deed of Indemnity”) with and in favor of us to provide indemnities in connection with, among other things:

- (a) any liability for Hong Kong estate duty which is or may be payable by any member of the Group by reason of any transfer of property (within the meaning of section 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group on or before the Listing Date;
- (b) any other tax liability which is or may be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the Listing Date;
- (c) any losses, liabilities or damages suffered by the Group, including the amount of any penalties, monetary fines and surcharge imposed on the Group or any person being held liable on behalf of the Group by any PRC regulatory authorities arising out of or in connection with any violation or non-compliance by any member of the Group with any applicable national and local labour laws, regulations or rules in the PRC (including without limitation, any laws, regulations or rules governing the payment of social insurance premium covering pension insurance, medical insurance, unemployment insurance job-related injury insurance, birth insurance and housing provident fund) in the course of its business if such violation or non-compliance occurred on or before the Listing Date;
- (d) any losses, damages, liabilities, costs or expense suffered or incurred by any member of the Group whereby any member of the Group is prohibited from using or occupying or being evicted from the use or occupying of:
 - (i) Dormitory No. 13 (as defined in the section headed “Business — Properties” in this prospectus), including without limitation any penalties imposed by any government authorities or other competent authorities in the PRC on the grounds that the registration of the completed constructions with the relevant government authorities in the PRC has not been completed within the prescribed period pursuant to the relevant regulations;
 - (ii) central warehouse (as referred to in the section headed “Business — Properties” in this prospectus), including without limitation any penalties imposed by any government authorities or other competent authorities in the PRC on the grounds of carrying out construction without a valid Construction Works Commencement Permit for the central warehouse pursuant to the relevant regulations;
 - (iii) workshop and canteen/office building (as referred to in the section headed “Business — Buildings” in this prospectus), including without limitation any penalties imposed on the Group or any person being held liable on behalf of the Group by any government authorities or other competent authorities in the PRC on the grounds that the completion handover process of such properties with the relevant government authorities in the PRC has not been completed within the prescribed period pursuant to the relevant regulations; and
 - (iv) any one of the properties set out in section headed “Group VI — Property interests leased and occupied by the Group in the PRC” in Appendix IV to this prospectus, whether claims made against the Group by the landlord or any third party whatsoever

(including without limitation any government authorities or other competent authorities in the PRC) on the grounds that the relevant tenancy or lease (excluding any tenancy or lease in respect of the same property renewed or entered into by any member of the Group on or after the Listing Date) is invalid or unenforceable or has been breached (other than a breach occurred on or after the Listing Date as a result of any action or inaction of any member of the Group) or the relevant landlord has not obtained the requisite license, permits and/or title certificates or any requisite procedure (including but not limited to registration or filing with the relevant government authorities in the PRC) has not been completed; and

- (e) any loss, liability, damage, cost or expense suffered or incurred by any member of the Group (including the amount of any penalty, monetary fine and surcharge imposed on the member of the Group by a relevant PRC regulatory authority) arising out of or in connection with any violation or non-compliance incurred on or before the Listing Date by such member of the Group with any applicable PRC national and local environmental law, regulation or rule (including any law, regulation or rule governing the discharge of pollutants including but not limited to any liquid or gas pollutant, solid waste, noise or radiation).

Under the Deed of Indemnity, the aforesaid indemnities do not cover any Claim (as defined therein) and the Indemnifiers shall under no liability in respect of any Claim:

- (a) to the extent that provision has been made for such Claim as mentioned in the Accountants' Report in Appendix I to this prospectus or to the extent that it relates to taxation incurred or accrued as at November 30, 2006 which arises in the ordinary course of business of the Group as described in the section entitled "Business" in this prospectus; or
- (b) to the extent that provision has been made for such Claim in the unaudited management accounts of the Company for the period commencing on December 1, 2006 ending on the Listing Date, provided that (i) such unaudited management accounts have been prepared in accordance with accounting policies used in preparing the Accountants' Report in Appendix I to the Prospectus applied on a consistent basis and (ii) the auditors of the Company have provided written confirmation to the Company that such provision has been made in such unaudited management accounts; or
- (c) falling on any member of the Group in respect of any accounting period commencing on or after the Listing Date; or
- (d) to the extent that such Claim would not have arisen but for a voluntary act or transaction carried out (other than pursuant to a legally binding obligations incurred or accrued on or before the date of the Deed of Indemnity) by the relevant indemnified parties after the date of the Deed of Indemnity; or
- (e) to the extent that such Claim arises or is incurred as a consequence of any change in the law having retrospective effect, or an increase in rate of tax with retrospective effect, coming into force after the Listing Date; or
- (f) to the extent that such Claim is discharged by another person who is not a member of the Group and none of the members of the Group is required to reimburse such person in respect of the discharge of the Claim.

2. *Litigation*

No member of the Group is engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

3. *Sponsors*

The Sponsors have made an application on behalf of the Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares to be issued pursuant to the Capitalization Issue and any Shares which may fall to be issued upon the exercise of the Over-allotment Option and upon the exercise of any options that may be granted under the Share Option Scheme).

Morgan Stanley has confirmed that it is independent from the Company.

Citicorp International Limited, Citi and Citibank, N.A., Hong Kong Branch are the agent, one of the arrangers and one of the lenders, respectively, of the term loan facility of HK\$780.0 million described in “Financial Information — Indebtedness — Borrowings” of this prospectus. Also, Citicorp International Limited, Citi and Citibank N.A., Hong Kong Branch will be the agent, the lead arranger and one of the lenders, respectively, of the new syndicated loan to be used to fund a special dividend declared on April 26, 2007. Citi and its associates have ongoing commercial banking relationships with the Company. Save for the foregoing, Citi and its associates have no other business relationship with us and Citi considers that its independence as one of the Joint Sponsors will be not affected by these loan transactions and confirmed that it is independent from the Company.

4. *Preliminary expenses*

The preliminary expenses of the Company are estimated to be approximately HK\$50,000 and are payable by the Company.

5. *Promoters*

The promoters of the Company are Mr. Choi Kin Chung, Mr. Ip Ping Im, Mr. Wan Wai Loi, Mr. Tsang Kang Po and Dr. Lam King Man. No cash, securities or other benefit has been paid, allotted or given, nor are any cash, securities or other benefit proposed to be paid, allotted or given, to them, in their capacity as the promoters, in connection with the Global Offering or related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.

6. *Qualifications of experts*

The following are the qualifications of the experts who have given an opinion or advice which is contained in this prospectus:

Name	Qualification
Citigroup Global Markets Asia Limited	A corporation licensed under the SFO to engage in types 1, 4 and 6 of the regulated activities (as defined in the SFO)
Morgan Stanley Dean Witter Asia Limited	A corporation licensed under the SFO to engage in types 1, 4, 5, 6 and 7 of the regulated activities (as defined in the SFO)
PricewaterhouseCoopers	Certified public accountants
Vigers Appraisal & Consulting Limited	Property valuers
King & Wood	Legal advisers as to PRC law
Maples and Calder	Legal advisers as to Cayman Islands and BVI law
F.J. & G. de Saram	Legal advisers as to Sri Lanka law

7. *Consents of experts*

Each of Citigroup Global Markets Asia Limited, Morgan Stanley Dean Witter Asia Limited, PricewaterhouseCoopers, Vigers Appraisal & Consulting Limited, King & Wood, Maples and Calder and F.J. & G. de Saram has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report, letter, valuation certificate and/or opinion (as the case may be) and/or references to its name included in the form and context in which they are included.

8. *Binding Effect*

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

9. *The Latest Financial Period Reported on by the Reporting Accountants Required Under the Listing Rules and the Companies Ordinance*

According to the Listing Rules and the Companies Ordinance, the Company is required to disclose certain financial information in relation to certain financial periods. In this regard, we have applied for (i) a waiver from strict compliance with the disclosure requirements under Rule 4.04(1) to the Listing Rules (which the Stock Exchange has granted) and (ii) an exemption from strict compliance with the disclosure requirements of paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance (which the SFC has granted). Further details of such waiver and exemption (including the conditions to the waiver and exemption) are set out in the section headed “Waivers from Compliance with the Listing Rules and the Companies Ordinance” in this prospectus.

10. *Bilingual Prospectus*

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. *Environmental incident at our Panyu facility*

On April 6, 2007, a third party contractor employed by us to carry out maintenance work at the Panyu manufacturing facility caused wastewater to be released from such facility into a nearby public river. The release lasted about 15 minutes. We did not authorize the contractor to perform this act and we had tried to minimize the damage to the environment through the application of decolorant, which is a substance that is commonly used to treat wastewater. The incident was reported to the relevant authorities in the Guangzhou Nansha District. Subsequently, the Ocean and Fishery Management Bureau of the Guangzhou Nansha District (廣州市南沙區海洋漁業管理局) carried out an assessment of the damage to fish in the vicinity and determined on April 9, 2007 that the economic loss amounted to approximately RMB60. In addition, the Water and Environmental Protection Bureau of Guangzhou Nansha District (廣州市南沙區水務和環境保護局) conducted on-site inspections and took water samples in connection with the accident and issued a notice (the “Notice”) dated April 27, 2007 to PPTL.

The Notice stated that our use of a ditch that was not equipped to prevent seepage or leakage amounted to a breach of applicable environmental regulations and PPTL was required to take measures to prevent seepage and leakage and complete the measures within 90 days of the date of the Notice. We expect the preventive measures to be completed by the end of June 2007 and we estimate that the cost of implementing such measures will not exceed RMB200,000. No fines have been imposed. The Company has been advised by its PRC legal counsel that the Notice constituted an administrative decision and was

not penal in nature. Our PRC legal counsel has further advised that no penalty would ordinarily be imposed where an administrative decision has been issued and we have carried out the action required in the administrative decision and that even if a penalty were to be imposed, it would not exceed RMB20,000.

We have received a number of inquiries from our customers in connection with this incident. One customer had sent a technician to inspect the water treatment plant at such facility to verify that we are in compliance with the applicable environmental standards, though we are not aware of any decision by such customer or any other customer to reduce their orders with us due to this incident. To date, we have not received any claims, or threats to claim, from residents of the Tongqin village in Wanqingsha town, Panyu.

12. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of the Company or any of its subsidiaries has been issued or is proposed to be issued as fully or partly paid up either for cash or for a consideration other than cash; and
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (b) Save as disclosed in this prospectus, neither the Company nor any of its subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares;
- (c) There has been no material adverse change in the financial or trading position of the Group since November 30, 2006 (being the date to which the latest audited consolidated financial statements of the Group were made up);
- (d) There has not been any interruption in the business of the Company which may have or have had a significant effect on the financial position of the Group in the 12 months immediately preceding the date of this prospectus; and
- (e) All necessary arrangements have been made to enable the Shares to be admitted into CASS.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the **white, yellow, pink** and **green** Application Forms, (ii) the written consents referred to in paragraph “Other Information — 7. Consents of experts” of Appendix VI to this prospectus, (iii) copies of each of the material contracts referred to in paragraph “Further Information about the Business of the Group — 1. Summary of material contracts” of Appendix VI to this prospectus and (iv) the statement of adjustments prepared by PricewaterhouseCoopers.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Linklaters at 10th Floor, Alexandra House, Chater Road, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles;
- (b) the Accountants’ Report prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus together with the statement of adjustments;
- (c) the audited consolidated financial statements as have been prepared for the Group for the two financial years ended March 31, 2006;
- (d) the report from PricewaterhouseCoopers on the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letter from each of PricewaterhouseCoopers and the Joint Sponsors, relating to the profit estimate, the text of which is set out in Appendix III to this prospectus;
- (f) the letter, summary of valuation and valuation certificates relating to our property interests prepared by Vigers Appraisal & Consulting Limited, the text of which is set out in Appendix IV to this prospectus;
- (g) the material contracts referred to in paragraph headed “Summary of material contracts” in Appendix VI to this prospectus;
- (h) the Directors’ service agreements referred to in the paragraph headed “Particulars of Directors’ service agreements” in Appendix VI to this prospectus;
- (i) the written consents referred to in the paragraph headed “Consents of experts” in Appendix VI to this prospectus;
- (j) the PRC legal opinions issued by King & Wood, our legal advisors on PRC law, in respect of, *inter alia*, general matters, property interests and taxation matters of our Group in the PRC;
- (k) the Sri Lanka legal opinion issued by F.J. & G. de Saram, our legal advisors on Sri Lanka law, in respect of, *inter alia*, general matters, property interests and taxation matters of our Group in Sri Lanka;
- (l) the letter of advice prepared by Maples and Calder summarizing certain aspects of the Cayman Islands Companies Law referred to in Appendix V to this prospectus;
- (m) the rules of the Share Option Scheme; and
- (n) the Cayman Islands Companies Law.