
IMPORTANT

If you are in any doubt about this prospectus or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Easyknit Enterprises Holdings Limited ("Company"), you should at once hand this prospectus and the accompanying provisional allotment letter and the form of application for excess Rights Shares, to the purchaser or bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

Dealings in the shares of the Company may be settled through the Central Clearing and Settlement System operated by Hong Kong Securities Clearing Company Limited ("HKSCC") and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

A copy of this prospectus, together with copies of the provisional allotment letter and the form of application for excess Rights Shares and the written consent of Deloitte Touche Tohmatsu (referred to herein) has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus will, as soon as reasonably practicable, be filed with the Registrar of Companies in Bermuda in accordance with the Companies Act 1981 of Bermuda (as amended). The Registrar of Companies in Hong Kong, the Securities and Futures Commission of Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of any of the documents referred to above.

The Stock Exchange of Hong Kong Limited and HKSCC 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.



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 616)

RIGHTS ISSUE OF 1,963,537,620 RIGHTS SHARES OF HK\$0.01 EACH AT HK\$0.052 PER RIGHTS SHARE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO SHARES HELD

Underwriter of the Rights Issue



KINGSTON SECURITIES LIMITED

It should be noted that the Underwriting Agreement (as defined herein) contains provisions granting the Underwriter the right to terminate its obligations on the occurrence of certain force majeure events. The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to 4:00 p.m. on the Settlement Date if: 1. there occurs: (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the USA) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or 2. the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or 3. the Underwriter receives notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or 4. the Prospectus Documents, when published, contain information which would be untrue or inaccurate in any material respect and the Company has failed to send out promptly any announcements or circulars (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Details of terms for the termination of the Underwriting Agreement are set out in the section headed "Termination of the Underwriting Agreement" on pages 5 to 6 of this prospectus. If the Underwriting Agreement is terminated, the Rights Issue will not proceed.

Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 3 January 2008 to Thursday, 10 January 2008 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated, the Rights Issue will not proceed. Any dealing in the Shares or nil-paid Rights Shares during the period from Thursday, 3 January 2008 to Thursday, 10 January 2008 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in the nil-paid form during such periods who are in any doubt about their position are recommended to consult their professional advisers. The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Tuesday, 15 January 2008. The procedures for acceptance or transfer of the Rights Shares are set out on page 13 of this prospectus.

* For identification only

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DEFINITIONS

In this Prospectus, the following expressions have the following meanings unless the context otherwise requires:

“Acceptance Date”	4:00 p.m. on Tuesday, 15 January 2008 (or such other time or date as the Underwriter may agree in writing with the Company as the latest date for acceptance of, and payment of, Rights Shares)
“Announcement”	the announcement of the Company dated 6 December 2007 relating to the Rights Issue
“associate(s)”	the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day on which banks are open for business for more than five hours in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	The Companies Act 1981 of Bermuda (as amended)
“Company”	Easyknit Enterprises Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Director(s)”	director(s) of the Company
“EAF(s)”	the excess application form(s) issued in connection with the Rights Issue
“Easyknit International”	Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Group”	the Company and its subsidiaries
“HKSCC”	the Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	independent third party(ies) not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates

DEFINITIONS

“Landmark Profits”	Landmark Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Easyknit International, is a 35.9% controlling Shareholder
“Last Trading Day”	28 November 2007, being the last trading day before the suspension of the trading of the Shares, pending the release of the Announcement
“Latest Practicable Date”	24 December 2007, being the latest practicable date prior to the printing of the Prospectus for ascertaining certain information contained herein
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-Qualifying Shareholder(s)”	Overseas Shareholder(s) in respect of whom the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Issue on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong or Bermuda
“PAL(s)”	the provisional allotment letter(s) issued in connection with the Rights Issue
“PRC”	the People’s Republic of China
“Prospectus”	this prospectus
“Prospectus Documents”	the Prospectus, PAL and EAF
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date
“Record Date”	28 December 2007
“Registrar”	the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong

DEFINITIONS

“Rights Issue”	the issue by way of rights of one Rights Share for every two Shares held on the Record Date at a price of HK\$0.052 per Rights Share
“Rights Share(s)”	the 1,963,537,620 new Share(s) to be issued and allotted under the Rights Issue
“Settlement Date”	the date being the fourth Business Day following the Acceptance Date or such later date as the Company and the Underwriter may agree
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Underwriter”	Kingston Securities Limited, a corporation licensed to carry out business in type 1 (dealing in securities) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company
“Underwriting Agreement”	the underwriting agreement dated 29 November 2007 entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of the Rights Issue
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“USA”	the United States of America
“%”	percentage or per centum

SUMMARY OF THE RIGHTS ISSUE

The following information is derived from, and should be read in conjunction with, the full text of this Prospectus:

Number of Rights Shares to be issued:	1,963,537,620 Rights Shares
Amount to be raised:	Approximately HK\$102.1 million before expenses
Subscription price:	HK\$0.052 per Rights Share payable in full on acceptance
Latest time for acceptance:	4:00 p.m. on Tuesday, 15 January 2008
Basis of the Rights Issue:	One Rights Share for every two Shares held on the Record Date
Right of excess applications:	Qualifying Shareholders have the right to apply for Rights Shares in excess of their provisional allotments

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by it to the Company at any time prior to 4:00 p.m. on the Settlement Date if:

1. there occurs:
 - (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
 - (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the USA) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
 - (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or

2. the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
3. the Underwriter receives the relevant notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or

TERMINATION OF THE UNDERWRITING AGREEMENT

4. the Prospectus Documents, when published, contain information which would be untrue or inaccurate in any material respect and the Company has failed to send out promptly any announcements or circulars (after the despatch on the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

If the Underwriter exercises such right, the Rights Issue will not proceed. Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and neither it nor the Company shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter the fees and expenses payable under it (other than the underwriting commission).

If the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement before 4:00 p.m. on the Settlement Date, the monies received in respect of the relevant provisional allotment and excess application will be returned to the relevant persons without interest, by means of cheques despatched by ordinary post at risk of such applicants on or before Thursday, 24 January 2008.

EXPECTED TIMETABLE

Record Date	Friday, 28 December 2007
Register of members re-opens	Monday, 31 December 2007
Despatch of the Prospectus Documents	Monday, 31 December 2007
First day of dealings in nil-paid Rights Shares	Thursday, 3 January 2008
Latest time for splitting of nil-paid Rights Shares	4:00 p.m., Monday, 7 January 2008
Last day of dealings in nil-paid Rights Shares	Thursday, 10 January 2008
Latest time for acceptance of the Rights Issue as well as application for excess Right Shares and payment of consideration thereof	4:00 p.m., Tuesday, 15 January 2008
Rights Issue and Underwriting Agreement become unconditional	after 4:00 p.m., Monday, 21 January 2008
Announcement of results of acceptances of and excess applications in the Rights Issue	Wednesday, 23 January 2008
Despatch of refund cheques for wholly and partially unsuccessful excess applications	Thursday, 24 January 2008
Despatch of certificates for fully-paid Rights Shares	Thursday, 24 January 2008
First day of dealings in the fully-paid Rights Shares	Monday, 28 January 2008

Note: All times and dates refer to Hong Kong local times and dates in this Prospectus.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR RIGHTS SHARES

The latest time for acceptance of and payment for Rights Shares will be changed if there is:

- a tropical cyclone warning signal number 8 or above, or

- a “black” rainstorm warning
 - (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day;

 - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Rights Shares does not take place on the Acceptance Date, the dates mentioned in the “Expected Timetable” in this section may be affected. A press announcement will be made by the Company in such event.

LETTER FROM THE BOARD



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 616)

Executive Directors:

Kwong Jimmy Cheung Tim

(Chairman and Chief Executive Officer)

Lui Yuk Chu

(Deputy Chairman)

Non-executive Director:

Tse Wing Chiu, Ricky

Independent Non-Executive Directors:

Kan Ka Hon

Lau Sin Ming

Foo Tak Ching

Registered office:

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

*Head office and principal place
of business in Hong Kong:*

Unit A, 7th Floor

Hong Kong Spinners Building, Phase 6

481-483 Castle Peak Road

Cheung Sha Wan

Kowloon

Hong Kong

31 December 2007

To the Qualifying Shareholders, and

for information only, the Non-Qualifying Shareholders

(other than those whose registered addresses are in Malaysia)

Dear Sir or Madam,

**RIGHTS ISSUE OF 1,963,537,620 RIGHTS SHARES
OF HK\$0.01 EACH AT HK\$0.052 PER RIGHTS SHARE ON THE BASIS OF
ONE RIGHTS SHARE FOR EVERY TWO SHARES HELD**

INTRODUCTION

On 6 December 2007, the Company announced that it proposes to raise approximately HK\$102.1 million before expenses by way of the Rights Issue of 1,963,537,620 Rights Shares at a price of HK\$0.052 per Rights Share payable in full on acceptance.

* For identification only

LETTER FROM THE BOARD

The purpose of this Prospectus is to provide you with details of the Rights Issue, including information on dealing and transfer of Rights Shares in their nil-paid form and the procedure for acceptance of provisional allotment of Rights Shares and certain financial and other information of the Group.

TERMS OF THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue	:	One Rights Share for every two Shares held on the Record Date
Number of Shares in issue as at the Latest Practicable Date	:	3,927,075,240 Shares
Number of outstanding share options	:	The Company does not have outstanding any share options granted under the share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares
Number of Rights Shares	:	1,963,537,620 Rights Shares
Subscription price per Rights Share	:	HK\$0.052 per Rights Share with par value of HK\$0.01 each

The 1,963,537,620 nil-paid Rights Shares represent: (a) 50% of the Company's existing issued share capital and (b) 33.3% of the Company's enlarged issued share capital immediately following the completion of the Rights Issue.

Qualifying Shareholders

The Company has sent the Prospectus Documents to the Qualifying Shareholders. To qualify for the Rights Issue, investors must be: (i) registered as members of the Company at the close of business on the Record Date; and (ii) Qualifying Shareholders.

LETTER FROM THE BOARD

Subscription price

The subscription price for the Rights Shares is HK\$0.052 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue. The subscription price represents:

	<i>HK\$</i>	<i>Premium (Discount) (%)</i>
(a) Closing price per Share quoted on the Stock Exchange on the Latest Practicable Date	0.059	(11.9)
(b) Closing price per Share quoted on the Stock Exchange on the Last Trading Day	0.087	(40.2)
(c) Theoretical ex-rights price calculated based on the closing price per Share quoted on the Stock Exchange on the Last Trading Day	0.075	(30.7)
(d) Average closing price per Share for the last 10 full trading days quoted on the Stock Exchange up to and including the Last Trading Day	0.086	(39.5)
(e) Net asset value per Share based on the unaudited net tangible asset value of the Group of approximately HK\$158,646,000 and 3,927,075,240 Shares in issue as at 30 September 2007 as stated in the interim report of the Company for the six months ended 30 September 2007	0.040	30.0

The subscription price for the Rights Shares was determined after arm's length negotiations between the Company and the Underwriter. Making reference to the scale of the Rights Issue, the recent market prices of the Shares, and the discounts offered by other listed companies in Hong Kong which conducted rights issue in the past few months, the Directors consider the terms of the Rights Issue, including the subscription price, to be fair and reasonable and in the best interests of the Company and the Shareholders.

Basis of provisional allotment

The basis of the provisional allotment is one Rights Share for every two Shares held, being 1,963,537,620 Rights Shares at a price of HK\$0.052 per Rights Share. Acceptances of all or part of a Qualifying Shareholder's provisional allotment can only be made by completing the PAL and lodging the same with a remittance for the Rights Shares being accepted.

Share certificates and refund cheques for Rights Shares

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted on or before Thursday, 24 January 2008 to those who have

LETTER FROM THE BOARD

accepted or, where applicable, successfully applied for excess Rights Shares, and paid for the Rights Shares, by ordinary post at their own risk. Where entitlements to Rights Shares exceed one board lot, it is proposed, so far as is practicable, to issue share certificates in integral multiples of board lot of 5,000 Shares each, with a certificate for the balance.

Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Thursday, 24 January 2008 by ordinary post to the applicants at their own risk.

Status of the Rights Shares

The Rights Shares, when fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares.

Rights of Shareholders with registered addresses outside Hong Kong

Based on the register of members of the Company at the close of business on the Record Date, there were 2 Shareholders with registered addresses in Malaysia and 1 Shareholder with a registered address in Spain.

The Directors have, in compliance with Rule 13.36(2)(a) of the Listing Rules, made enquiries regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges.

Based on the legal advice provided by the relevant legal counsels, the Directors are of the view that the Rights Issue can be offered to the Overseas Shareholder in Spain as there are no restrictions on the offering of the Rights Issue to the Shareholder in that jurisdiction which would be difficult for the Company to comply with, or there are appropriate exemptions to the applicable restrictions in that jurisdiction. Therefore, provisional allotments of new Rights Shares will be made and the Prospectus Documents will be sent to the Overseas Shareholder in Spain.

Legal opinion obtained from legal advisers in Malaysia have indicated that the offering of the Rights Shares to the Overseas Shareholders in Malaysia is not prohibited under applicable Malaysian laws but is subject to certain requirements involving the lodgement of the Prospectus Documents. Due to the costs involved with the lodgement of the Prospectus Documents in compliance with the relevant laws and regulations, the Directors have determined that it is not expedient to make available the Rights Issue to these Overseas Shareholders as such costs would outweigh the possible benefit to the relevant Overseas Shareholders and the Company. In light of the requirement for lodgement, the Company will not send any Prospectus Documents to the Shareholders with registered addresses in Malaysia and no provisional allotment of Rights Shares will be made to these Overseas Shareholders, who are thus Non-Qualifying Shareholders.

LETTER FROM THE BOARD

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and before dealings in nil-paid Rights Shares end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the Non-Qualifying Shareholders. The Company will retain individual amounts of HK\$100 or less for its own benefit. Any unsold entitlement of Non-Qualifying Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be made available for excess application on EAFs by Qualifying Shareholders.

Procedures for acceptance or transfer

A PAL is enclosed with this Prospectus which entitles the Qualifying Shareholder(s) to whom it is addressed to subscribe for the number of the Rights Shares shown thereon. If the Qualifying Shareholders wish to exercise their right to subscribe for all the Rights Shares provisionally allotted to them as specified in the PAL, they must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar, by no later than 4:00 p.m. on Tuesday, 15 January 2008. All remittances must be made in Hong Kong dollars and cheques or cashier orders must be drawn on a bank account in Hong Kong and made payable to “**Easyknit Enterprises Holdings Limited — Rights Issue Account**” and crossed “Account Payee Only”.

It should be noted that unless the PAL, together with the appropriate remittance, has been lodged with the Registrar by 4:00 p.m. on Tuesday, 15 January 2008, whether by the original allottee or any person in whose favour the rights have been validly transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Qualifying Shareholders wish to accept only part of their provisional allotment or transfer a part of their rights to subscribe for the Rights Shares provisionally allotted to them under the PAL or to transfer all of their rights, the entire PAL must be surrendered and lodged for cancellation by no later than 4:00 p.m. on Monday, 7 January 2008 to the Registrar, who will cancel the original PAL and issue new PALs in the denominations required.

All cheques or cashier orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Any PAL in respect of which the cheque or cashier order is dishonoured on first presentation is liable to be rejected, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement before 4:00 p.m. on the Settlement Date, the monies received in respect of the relevant provisional allotments will be returned to the relevant persons without interest, by means of cheques despatched by ordinary post at the risk of such applicants on or before Thursday, 24 January 2008.

LETTER FROM THE BOARD

Application for excess Rights Shares

Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders and for any Rights Shares provisionally allotted but not accepted.

If the Qualifying Shareholders wish to apply for any Rights Shares in addition to their provisional allotment, they must complete and sign the enclosed EAF in accordance with the instructions printed thereon and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Registrar, by no later than 4:00 p.m. on Tuesday, 15 January 2008. All remittances must be made in Hong Kong dollars and cheques or cashier orders must be drawn on a bank account in Hong Kong and made payable to “**Easyknit Enterprises Holdings Limited — Excess Application Account**” and crossed “Account Payee Only”. The Registrar will notify the Qualifying Shareholders of any allotment of excess Rights Shares made to them, which will be at the discretion of the Directors on a fair and equitable basis. The Directors will allocate any excess Rights Shares at their discretion with reference to the level of acceptance of the Rights Shares and the number of excess Rights Shares available on a fair and reasonable basis on the following principles:

- a. preference will be given to applications for topping-up odd lots to whole board lots; and
- b. subject to availability of excess Rights Shares after allocation under principle (a) above, the excess Rights Shares will be allocated to Qualifying Shareholders who have applied for excess Rights Shares on a pro-rata basis, with board lot allocations, round up or down, to be made on a best effort’s basis.

If no excess Rights Shares are allotted to a Qualifying Shareholder, the amount tendered on application is expected to be returned to that Qualifying Shareholder in full by ordinary mail and at his own risk on or before Thursday, 24 January 2008. If the number of excess Rights Shares allotted to the Qualifying Shareholders is less than that applied for, the surplus application monies are also expected to be returned to them by ordinary mail and at their own risk on or before Thursday, 24 January 2008.

If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement before 4:00 p.m. on the Settlement Date, the monies received in respect of relevant applications for excess Rights Shares will be returned to the relevant persons without interest, by means of cheques despatched by ordinary post at the risk of such applicants on or before Thursday, 24 January 2008.

All cheques or cashier orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Any EAF in respect of which a cheque or cashier order is dishonoured on first presentation is liable to be rejected.

LETTER FROM THE BOARD

The EAF is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including cheques or cashier orders for amounts due, will be sent at the risk of the persons entitled thereto to their registered addresses by the Registrar.

Listings and dealings

The Company has applied to the Listing Committee for the listings of, and permission to deal on the Stock Exchange in the Rights Shares, in both their nil-paid and fully-paid forms. Dealings in the Rights Shares in their nil-paid form will take place from Thursday, 3 January 2008 to Thursday, 10 January 2008, both days inclusive.

Subject to the granting of the listings of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Shareholders should seek advice from their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Apart from the Shares and the Rights Shares, no part of the share capital of the Company is listed or dealt in, and no listing or permission to deal is being or is proposed to be sought, on any other stock exchange.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS. For the purpose of trading on the Stock Exchange, a board lot for the Rights Shares in both their nil-paid and fully-paid forms will be 5,000 Shares. Dealings in the Rights Shares in both their nil-paid and fully-paid forms, which are registered in the branch register of members of the Company in Hong Kong will be subject to the payment of stamp duty in Hong Kong.

Underwriting arrangements

Underwriting agreement dated 29 November 2007

The Underwriter has agreed to fully underwrite the 1,258,111,360 Rights Shares (being all the 1,963,537,620 Rights Shares under the Rights Issue, less the 705,426,260 Rights Shares to be issued to and accepted by Landmark Profits). To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Underwriter and its ultimate beneficial controlling shareholders are Independent Third Parties.

LETTER FROM THE BOARD

Conditions of the Rights Issue

The Rights Issue is conditional, among other things, on each of the following conditions being fulfilled:

1. the Listing Committees of the Stock Exchange agreeing to grant listings of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms, either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any) by no later than the dates specified in such approvals and not having withdrawn or revoked such listings and permission on or before 4:00 p.m. on the Settlement Date;
2. the delivery to the Stock Exchange and filing and registration of all documents relating to the Rights Issue required by law to be filed, with the Registrars of Companies in Hong Kong and Bermuda respectively;
3. if required, the Bermuda Monetary Authority granting its consent for the issue of the Rights Shares;
4. the posting of the Prospectus Documents to the Qualifying Shareholders; and
5. the Underwriting Agreement becoming unconditional and not being terminated by the Underwriter.

As at the Latest Practicable Date, none of the above conditions has been fulfilled.

If the conditions of the Rights Issue under the Underwriting Agreement are not fulfilled (or waived in whole or in part by the Underwriter) by the relevant dates and times specified in the Underwriting Agreement (or, in each case, such later date or time as the Underwriter may agree in writing with the Company pursuant to the Underwriting Agreement), then all liabilities of the parties thereto shall cease and determine and neither party shall have any claim against the other (except that certain expenses of the Underwriter shall remain payable by the Company) and the irrevocable undertaking by Landmark Profits to accept its entitlement under the Rights Issue will lapse. The Rights Issue will not proceed accordingly.

Commission

The Company will pay the Underwriter an underwriting commission of 1% of the aggregate subscription price of the Rights Shares underwritten by it, out of which the Underwriter may pay sub-underwriting fees. The Directors believe that the underwriting commission accords with market rates.

Undertaking from Landmark Profits

As at the Latest Practicable Date, Easyknit International, through Landmark Profits, is interested in 1,410,852,520 Shares, representing approximately 35.9% of the total issued share capital of the

LETTER FROM THE BOARD

Company. Landmark Profits has irrevocably undertaken to the Company and the Underwriter that the Shares beneficially owned by it will not be disposed of or transferred from the date of the undertaking, being the date of the Underwriting Agreement, to the Record Date and that the Rights Shares to be allotted in respect of those Shares will be taken up in full, representing 705,426,260 Rights Shares. Landmark Profits will not apply for any excess Rights Shares.

Termination of the Underwriting Agreement

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by it to the Company at any time prior to 4:00 p.m. on the Settlement Date if:

1. there occurs:
 - (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
 - (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the USA) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
 - (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or

2. the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
3. the Underwriter receives the relevant notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its

LETTER FROM THE BOARD

reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or

4. the Prospectus Documents, when published, contain information which would be untrue or inaccurate in any material respect and the Company has failed to send out promptly any announcements or circulars (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

If the Underwriter exercises such right, the Rights Issue will not proceed. Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and neither it nor the Company shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter the fees and expenses payable under it (other than the underwriting commission).

If the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement before 4:00 p.m. on the Settlement Date, the monies received in respect of the relevant provisional allotment and excess application will be returned to the relevant persons without interest, by means of cheques despatched by ordinary post at risk of such applicants on or before Thursday, 24 January 2008.

WARNING OF THE RISKS OF DEALINGS IN THE SHARES AND RIGHTS SHARES

Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 3 January 2008 to Thursday, 10 January 2008 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares and the Rights Shares in their nil-paid form who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in the Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Thursday, 3 January 2008 to Thursday, 10 January 2008 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed.

LETTER FROM THE BOARD

Shareholding in the Company

The shareholding in the Company as at the Record Date and after completion of the Rights Issue is as follows:

	As at the Record Date		After completion of the Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders or sold in the market)		After completion of the Rights Issue (assuming only Landmark Profits takes up its Rights Shares)	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
Landmark Profits	1,410,852,520	35.9	2,116,278,780	35.9	2,116,278,780	35.9
Public	2,516,222,720	64.1	3,774,334,080	64.1	2,516,222,720	42.7
Underwriter	—	—	—	—	1,258,111,360	21.4
Total	<u>3,927,075,240</u>	<u>100.0</u>	<u>5,890,612,860</u>	<u>100.0</u>	<u>5,890,612,860</u>	<u>100.0</u>

Business review

The Group is principally engaged in the bleaching and dyeing and knitting business. The bleaching and dyeing business continued to be the principal business of the Group. As stated in the interim report of the Group for the six months ended 30 September 2007 (“Interim Report”), the bleaching and dyeing business contributed to approximately 99.9% of the Group’s total turnover during the period under review, whereas the knitting business accounted for the remaining 0.1% of the total turnover of the Group.

During the six months ended 30 September 2007, the Group recorded a turnover of approximately HK\$38.4 million (2006: HK\$29.5 million), representing an increase of about 30.1% from the same period in 2006. Loss attributable to Shareholders for the period amounted to about HK\$12.9 million (2006: HK\$4.6 million). Increase in loss attributable to Shareholders was largely due to the provision of legal and professional fees of about HK\$8.2 million for services rendered up to 30 September 2007 in relation to the possible merger with Wits Basin Precious Minerals, Inc. (“Wits Basin”). Details of the status of the possible merger with Wits Basin are set out in the Interim Report and the announcements of the Company published on 30 November 2006, 1 February 2007, 6 February 2007, 30 March 2007, 17 July 2007, 6 August 2007, 20 August 2007, 6 November 2007 and 19 December 2007. Shareholders are advised to refer thereto for further information. A brief summary on the status of the possible merger with Wits Basin is set out under the paragraph headed “Termination of the possible merger with Wits Basin” below. Loss per Share for the six months ended 30 September 2007 was about HK\$0.003 (2006: HK\$0.001 after adjustment to reflect the bonus issue of shares of the Company on the basis of nine bonus shares for every share then held in June 2006. Details of the aforementioned bonus issue are set out in the circular of the Company dated 19 May 2006).

LETTER FROM THE BOARD

Bleaching and dyeing business

Turnover of the bleaching and dyeing business increased by about 30.0% to about HK\$38.4 million (2006: HK\$29.5 million), while loss in this segment was about HK\$692,000 (2006: HK\$2.1 million). The improvement in loss from this segment was due to the provision of doubtful debts of about HK\$1.6 million in the last corresponding period but no such provision was required for the six months ended 30 September 2007.

Knitting business

Turnover of the knitting business for the six months ended 30 September 2007 amounted to HK\$32,000 (2006: nil). Taking into account the portion of inter-segment sales, the turnover derived from this business rose by 12.5% to about HK\$4.6 million (2006: HK\$4.1 million). Loss from this segment for the period increased to about HK\$683,000 (2006: HK\$570,000), which was due to the increase in direct material costs and sub-contracting charges.

Development on the Huzhou Project

As stated in the Interim Report, the Group obtained the land use right certificate for about 115 mu of land from the local Huzhou Government in September 2007. Such piece of land is designated for building of the knitting production plant, which construction will commence as soon as the relevant work permit is obtained. Completion of the construction of the garment production plants, staff and labour quarters and administrative office buildings on the land previously received is expected to be completed after November 2008. The land use right certificate for the remaining plot of land which is designated for the building of bleaching and dyeing production plant and the waste water treatment plant is yet to be received.

Termination of the possible merger with Wits Basin

On 20 April 2007, the Company and its wholly owned subsidiary Race Merger, Inc. entered into a conditional merger agreement with Wits Basin for the possible merger between the Group and Wits Basin ("Merger Agreement"), which involved a possible issue of about 3,345,286,315 shares of the Company in the form of American Depositary Shares. Wits Basin is a company incorporated in Minnesota, the USA, whose principal business is the exploration and development of minerals in Mexico, Colorado and South Africa.

On 15 August 2007, Wits Basin filed a declaratory judgment action in the District Court of the State of Minnesota against the Company and Race Merger, Inc. pursuant to which Wits Basin seeks a declaration by the court that Wits Basin is entitled to terminate the Merger Agreement.

On 1 November 2007, the Group received a notice of termination of the Merger Agreement from Wits Basin's lawyers.

LETTER FROM THE BOARD

On 19 December 2007, the Company and Race Merger, Inc. entered into a settlement agreement and general release (“Settlement and Release”) with Wits Basin, pursuant to which the Merger Agreement was terminated and the possible merger with Wits Basin will not proceed. The major terms of the Settlement and Release are summarised below:

- (a) The parties agree to dismiss the litigation previously started by Wits Basin on 15 August 2007 (“Lawsuit”), including all claims, counterclaims, and defences, with prejudice and on the merits, without further costs or fees to any party;
- (b) The parties agree that all written or oral agreements entered into between the parties prior to the execution of the Settlement and Release, including the Merger Agreement, are deemed terminated;
- (c) Wits Basin, for itself and its officers, directors and shareholders, fully releases, acquits and discharges the Company and Race Merger, Inc. and their predecessors, successors, parents, subsidiaries, representatives, attorneys, directors, officers, agents or insurers, of any and all claims, liabilities, causes of action, damages, costs, attorneys’ fees, expenses, and compensation that Wits Basin may have in connection with the Lawsuit or the Merger Agreement; and
- (d) The Company and Race Merger, Inc., for themselves and their officers, directors, and shareholders, fully release, acquit and discharge Wits Basin and its predecessors, successors, parents, subsidiaries, representatives, attorneys, directors, officers, agents or insurers, of any and all claims, liabilities, causes of action, damages, costs, attorneys’ fees, expenses, and compensation that the Company and/or Race Merger Inc. may have in connection with the Lawsuit or the Merger Agreement.

Prospects

In view of the stable customer orders, the Directors believe that the businesses of the Group will remain stable for the foreseeable future. Despite keen competition in the market, the Group will continue to streamline its operations by controlling production cost and improving product quality.

For the Huzhou project, the Directors will follow up closely on the existing constructions and with the local government in the PRC in relation to the receiving of the last plot of land.

Reasons for the Rights Issue and use of proceeds

The estimated expenses of the Rights Issue amount to approximately HK\$2.1 million and will be borne by the Company. The estimated net proceeds of the Rights Issue will be approximately HK\$100.0 million. The Company plans to use the net proceeds from the Rights Issue to finance the construction of the production plants of its Huzhou project as stated above and for general working capital use.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Group had bank balances and cash of approximately HK\$5 million.

In view of the capital requirements of the Group's Huzhou project, the Directors consider that the Rights Issue will be able to provide the necessary funding for the continued development and construction of its production plants and offices in Huzhou so as to expand its scale of production. The Directors consider the terms of the Rights Issue, including the subscription price, to be fair and reasonable and in the best interests of the Company and the Shareholders.

The Directors have considered other ways of fund raising such as bank borrowing and placing of new Shares and are of the opinion that bank borrowing will incur interest costs while placing of new Shares will result in dilution of the interests of Shareholders. The Rights Issue will enhance the capital base of the Group while allowing Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company. On this basis, the Directors consider that it is in the interests of the Company and its Shareholders as a whole to raise capital through the Rights Issue.

PREVIOUS FUND RAISING EXERCISE OF THE COMPANY

The Company has not conducted any fund raising exercise in the 12 months preceding the Latest Practicable Date.

PERMISSION OF THE BERMUDA MONETARY AUTHORITY

Permission under the Exchange Control Act 1972 of Bermuda (as amended) (and regulations made thereunder) has been granted by the Bermuda Monetary Authority in respect of the issue of the Rights Shares to persons regarded as non-residents of Bermuda for exchange control purposes subject to the requirement that the Shares are listed on the Stock Exchange. In granting such permission and in accepting the Prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any statements made or opinions expressed in the Prospectus.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendices I to III to this Prospectus.

Yours faithfully,
For and on behalf of
Easyknit Enterprises Holdings Limited
Kwong Jimmy Cheung Tim
Chairman and Chief Executive Officer

1. DIRECTORS**Particulars of Directors****Name****Address****Executive Directors:**

Kwong Jimmy Cheung Tim

Flat 15C, Block 1
Ronsdale Garden
25 Tai Hang Drive
Tai Hang
Hong Kong

Lui Yuk Chu

No. 11 Keng Hau Road
Shatin
New Territories
Hong Kong**Non-Executive Director:**

Tse Wing Chiu, Ricky

House D6
Flamingo Garden
No. 7 Fei Wan Road
Fei Ngo Shan
New Territories
Hong Kong**Independent Non-Executive Directors:**

Kan Ka Hon

Unit GB,
11 La Serence
Discovery Bay
New Territories
Hong Kong

Lau Sin Ming

Flat D, 4th Floor
Wah Shing Building
19 Castle Peak Road
Kowloon
Hong Kong

Foo Tak Ching

Flat A, 11th Floor
Skyline Mansion
51 Conduct Road
Hong Kong

Executive Directors

Kwong Jimmy Cheung Tim, aged 64, is an executive Director, Chairman, Chief Executive Officer, authorised representative and chairman of the Executive Committee of the Company. He is also an executive director, president, chief executive officer, authorised representative and chairman of the Executive Committee of the board of directors of Easyknit International. Mr. Kwong is also a director of Race Merger, Inc., a wholly-owned subsidiary of the Company. Mr. Kwong graduated from The University of Hong Kong in 1965 and was admitted as Barrister-at-law in the United Kingdom in 1970 and Hong Kong in 1973 respectively. He has over 30 years of experience in the legal field. Mr. Kwong was appointed to the Board as an independent non-executive director in April 2003 and was re-designated as an executive director in April 2007.

Lui Yuk Chu, aged 49, is an executive Director and Deputy Chairman of the Company and a member of the Executive Committee of the Board. Ms. Lui is also an executive director and Vice President and a member of the Executive Committee of the board of directors of Easyknit International. She has been involved in the textiles industry for more than 29 years and has extensive experience in design, manufacturing, marketing and distribution of apparel. She serves as director of various subsidiaries of the Company and Easyknit International. Ms. Lui did not hold any other directorships in listed companies in the last three years. She was appointed to the Board in March 2003.

Non-Executive Director

Tse Wing Chiu, Ricky, aged 49, is a non-executive Director. Mr. Tse obtained a Master's Degree in Business Administration from Adam Smith University of America in the USA in 1996. He has over 31 years of experience in garment manufacturing and merchandising. He serves as the non-executive director of Easyknit International. Mr. Tse did not hold any other directorships in listed companies in the last three years. He was appointed to the Board as an executive director in November 2005 and was re-designated as a non-executive director on 18 December 2007.

Independent Non-Executive Directors

Kan Ka Hon, aged 56, is a member and Chairman of the Audit Committee of the Board and a member of the Remuneration Committee of the Board. He holds a Bachelor's Degree in Science from The University of Hong Kong and is a fellow member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. He has over 30 years of experience in accounting and finance. Mr. Kan is an executive director of Chevalier International Holdings Limited and Chevalier Pacific Holdings Limited. He is also an independent non-executive director of Victory City International Holdings Limited. Mr. Kan was appointed to the Board in April 2003.

Lau Sin Ming, aged 46, is a member and Chairman of the Remuneration Committee of the Board and a member of the Audit Committee of the Board. He is a fellow member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. He has over 25 years of experience in accounting and auditing. He is now working as an audit manager in Lam, Kwok, Kwan and Cheng C.P.A. Limited. Mr. Lau was appointed to the Board in September 2004.

Foo Tak Ching, aged 73, is a member of the Audit Committee and Remuneration Committee of the Board. He is currently a Partner of Messrs. Liu, Choi & Chan, a firm of solicitors and notaries in Hong Kong and has been practising in the legal field for more than 30 years. He obtained his LL.B. from the University of London in the United Kingdom in 1968 and his diploma in Chinese Laws from the University of East Asia in Macau in 1987. Mr. Foo was admitted as a solicitor in England and Wales in 1972 and Hong Kong in 1973 respectively and as a barrister and solicitor in the State of Victoria, Australia in 1982. He is a Notary Public and a China Appointed Attesting Officer. Mr. Foo was appointed to the Board in April 2007.

2. CORPORATE INFORMATION

Registered office	Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda
Principal place of business	Unit A, 7th Floor Hong Kong Spinners Building, Phase 6 481-483 Castle Peak Road Cheung Sha Wan, Kowloon Hong Kong
Company secretary	Chan Po Cheung FCPA, FCCA, ACA
Qualified accountant	Hsu Kei Leung FCPA, FCCA, ACMA, ASA
Authorised representatives	Kwong Jimmy Cheung Tim Chan Po Cheung
Legal advisers to the Company	<i>On Hong Kong law:</i> Richards Butler 20th Floor Alexandra House 16-20 Chater Road Hong Kong <i>On Bermuda law:</i> Appleby 5511 The Center 99 Queen's Road Central Hong Kong
Auditors	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 35th Floor, One Pacific Place 88 Queensway Hong Kong
Branch share registrar and transfer office in Hong Kong	Tricor Secretaries Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

**Principal share registrar and
transfer office in Bermuda**

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Principal bankers

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road
Central
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

3. SHARE CAPITAL AND SHARE OPTIONS

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following the Rights Issue are, and are expected to be, as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>20,000,000,000</u>	Shares as at the Latest Practicable Date	<u>200,000,000.00</u>
 <i>Issued and fully-paid:</i>		
<u>3,927,075,240</u>	Shares in issue as at the Latest Practicable Date	<u>39,270,752.40</u>
<u>1,963,537,620</u>	Rights Shares to be issued pursuant to the Rights Issue	<u>19,635,376.20</u>
<u>5,890,612,860</u>	Shares in issue immediately following the Rights Issue	<u>58,906,128.60</u>

Each of the Shares in issue ranks *pari passu* with all other Shares in all respects including as to rights to dividends, voting and return of capital. The Rights Shares to be issued pursuant to the Rights Issue, when fully paid and issued, will rank *pari passu* in all respects with the Shares then in issue including as to the right to receive dividends and distributions which may be declared, made or paid after the issue of the Rights Shares.

The Company has its primary listing on the Stock Exchange. Save as disclosed herein, no part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchanges.

Save as disclosed herein, no share or loan capital of the Company or any of its subsidiaries has been put under option or agreed conditionally or unconditionally to be put under option.

The Company has no outstanding warrants, share options or other securities which are convertible into or giving rights to subscribe for Shares.

1. FINANCIAL SUMMARY

A summary of: (i) the published results of the Group for each of the three years ended 31 March 2007 and the six months ended 30 September 2006 and 2007 and (ii) the published assets and liabilities of the Group for each of the three years ended 31 March 2007 and the six months ended 30 September 2007 are set out below:

(i) Results

	Year ended 31 March			For the six months ended 30 September	
	2005	2006	2007	2006	2007
	HK\$'000 (Audited)	HK\$'000 (Audited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Turnover	<u>53,662</u>	<u>58,039</u>	<u>75,964</u>	<u>29,543</u>	<u>38,443</u>
Profit(loss) before taxation	6,104	(32,857)	(9,909)	(4,563)	(12,947)
Taxation	<u>—</u>	<u>—</u>	<u>(1,572)</u>	<u>—</u>	<u>—</u>
Profit(loss) for the year/period	<u>6,104</u>	<u>(32,857)</u>	<u>(11,481)</u>	<u>(4,563)</u>	<u>(12,947)</u>

(ii) Assets and Liabilities

	At 31 March			At 30 September	
	2005	2006	2007	2006	2007
	HK\$'000 (Audited)	HK\$'000 (Audited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Total assets	119,667	185,541	204,879	191,204	191,204
Total liabilities	<u>(55,646)</u>	<u>(10,513)</u>	<u>(36,245)</u>	<u>(32,558)</u>	<u>(32,558)</u>
Total equity	<u>64,021</u>	<u>175,028</u>	<u>168,634</u>	<u>158,646</u>	<u>158,646</u>

For the financial statements of the Company for the year ended 31 March 2007 and the six months ended 30 September 2007, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006, 1 March 2006 and 1 April 2007. The adoption of these new HKFRSs, has no material effect on how the results and financial position for the current and prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. AUDITED FINANCIAL STATEMENTS

Set out below are the audited financial statements together with the relevant notes thereto as extracted from pages 26 to 59 of the annual report of the Company for the year ended 31 March 2007.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Turnover	5	75,964	58,039
Cost of sales and services		<u>(74,717)</u>	<u>(53,573)</u>
Gross profit		1,247	4,466
Other income		2,667	1,441
Distribution costs		(424)	(536)
Administrative expenses		(15,084)	(10,533)
Other expenses		(608)	(1,416)
Impairment loss recognised in respect of goodwill		—	(21,122)
Write back of allowance (allowance) for doubtful debts		2,446	(3,882)
Finance costs	7	<u>(153)</u>	<u>(1,275)</u>
Loss before taxation	8	(9,909)	(32,857)
Taxation	10	<u>(1,572)</u>	<u>—</u>
Loss for the year		<u><u>(11,481)</u></u>	<u><u>(32,857)</u></u>
Basic loss per share	11	<u><u>HK cent (0.3)</u></u>	<u><u>HK cent (1.5)</u></u>

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP****CONSOLIDATED BALANCE SHEET***At 31 March 2007*

	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	13	66,836	24,596
Prepaid lease payments	14	31,642	8,814
Deposits for acquisition of property, plant and equipment		<u>16,125</u>	<u>15,628</u>
		<u>114,603</u>	<u>49,038</u>
Current assets			
Inventories	15	15,445	4,629
Trade and other receivables	16	44,783	21,673
Prepaid lease payments	14	656	183
Bank balances and cash	17	<u>29,392</u>	<u>110,018</u>
		<u>90,276</u>	<u>136,503</u>
Current liabilities			
Trade and other payables	18	24,453	8,847
Bills payable	19	4,146	682
Tax payable		1,608	—
Bank loans	20	<u>6,038</u>	<u>984</u>
		<u>36,245</u>	<u>10,513</u>
Net current assets		<u>54,031</u>	<u>125,990</u>
		<u>168,634</u>	<u>175,028</u>
Capital and reserves			
Share capital	21	39,271	3,927
Reserves		<u>129,363</u>	<u>171,101</u>
		<u>168,634</u>	<u>175,028</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2005	35,701	61,344	17,850	714	45	(51,633)	64,021
Exchange differences arising on translation to presentation currency	—	—	—	—	2,006	—	2,006
Loss for the year	—	—	—	—	—	(32,857)	(32,857)
Total recognised income and expense for the year	—	—	—	—	2,006	(32,857)	(30,851)
Reduction of share capital upon capital reorganisation (<i>see note 21(a)</i>)	(35,344)	—	35,344	—	—	—	—
Rights issue of shares (<i>see note 21(b)</i>)	3,570	139,233	—	—	—	—	142,803
Transaction costs attributable to issue of new shares	—	(945)	—	—	—	—	(945)
At 31 March 2006	3,927	199,632	53,194	714	2,051	(84,490)	175,028
Exchange differences arising on translation to presentation currency	—	—	—	—	5,087	—	5,087
Loss for the year	—	—	—	—	—	(11,481)	(11,481)
Total recognised income and expense for the year	—	—	—	—	5,087	(11,481)	(6,394)
Bonus issue by capitalisation of the share premium account (<i>see note 21(c)</i>)	35,344	(35,344)	—	—	—	—	—
At 31 March 2007	39,271	164,288	53,194	714	7,138	(95,971)	168,634

The capital reserve of the Group represents the credit arising from the reduction of share capital of the Company in March 2004 and September 2005 and can be applied in the future for distribution to the shareholders.

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

	2007 HK\$'000	2006 HK\$'000
Operating activities		
Loss before taxation	(9,909)	(32,857)
Adjustments for:		
Interest income	(1,926)	(1,291)
Interest expense	153	1,275
Depreciation	3,332	3,372
Amortisation of prepaid lease payments	301	168
(Write back) allowance for inventories	(96)	214
(Write back) allowance for doubtful debts	(2,446)	3,882
Loss on disposal of property, plant and equipment	127	96
Impairment loss recognised in respect of goodwill	—	21,122
	<u>(10,464)</u>	<u>(4,019)</u>
Operating cash flows before movements in working capital	(10,464)	(4,019)
Increase in inventories	(10,720)	(197)
(Increase) decrease in trade and other receivables	(20,665)	211
Increase in trade and other payables	15,448	807
Increase (decrease) in bills payable	3,464	(518)
	<u>(22,937)</u>	<u>(3,716)</u>
Net cash used in operating activities	(22,937)	(3,716)
Investing activities		
Proceeds from disposal of property, plant and equipment	214	55
Interest received	1,926	1,291
Deposits for acquisition of property, plant and equipment	(139)	(15,628)
Purchase of property, plant and equipment	(44,926)	(4,094)
Purchase of land use rights	(23,209)	(9,165)
Refund of excess payment on acquisition of subsidiaries	—	11,120
	<u>(66,134)</u>	<u>(16,421)</u>
Net cash used in investing activities	(66,134)	(16,421)
Financing activities		
Interest paid	(153)	(1,275)
Net proceeds from issue of new shares	—	141,858
Bank loans raised	16,153	28,331
Repayment of bank loans	(11,099)	(73,753)
	<u>4,901</u>	<u>95,161</u>
Net cash from financing activities	4,901	95,161
Net (decrease) increase in cash and cash equivalents	(84,170)	75,024
Cash and cash equivalents at beginning of the year	110,018	33,352
Effect of foreign exchange rate changes	3,544	1,642
	<u>29,392</u>	<u>110,018</u>
Cash and cash equivalents at end of the year, represented by bank balances and cash	<u>29,392</u>	<u>110,018</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

1. GENERAL

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

The financial statements are presented in Hong Kong dollars and the functional currency of the Company is Renminbi. The Company uses Hong Kong dollars as its presentation currency because the Company is a public company with its shares listed on the Stock Exchange.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), that are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 and 1 March 2006. The adoption of these new HKFRSs has no material effect on how the results and financial position for the current and prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has also not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of this standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating segments ²
HK(IFRIC) - INT 8	Scope of HKFRS 2 ³
HK(IFRIC) - INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) - INT 10	Interim financial reporting and impairment ⁵
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions ⁶
HK(IFRIC) - INT 12	Service concession arrangements ⁷

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2009.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

⁵ Effective for annual periods beginning on or after 1 November 2006.

⁶ Effective for annual periods beginning on or after 1 March 2007.

⁷ Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

Revenue recognition

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

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

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

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

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and impairment losses.

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

Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Inventories

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

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are generally classified as loans and receivables.

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bills payable and bank loans are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in the consolidated income statement.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or other liabilities assumed is recognised in the consolidated income statement.

Impairment

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

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

Taxation

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the consolidated income statement.

Leasing

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

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period.

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

Retirement benefits costs

Payments to the state-sponsored pension scheme operated by the Mainland China government or the Mandatory Provident Fund Scheme are charged as an expense as the employees have rendered the services entitling them to the contribution.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

Several subsidiaries of the Company have foreign currency sales/purchase denominated in currencies other than their functional currencies, which expose the Group to foreign currency risk.

The Group also had foreign currency exposure arising from the bank borrowings denominated in US dollars.

As the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

Interest rate risk

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

In addition, the Group's cash flow interest rate risk also relates primarily to variable-rate borrowings (see note 20 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rates of interest so as to minimise the fair value interest rate risk.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In view of nature of business, the Group has targeted on a focused market. As at 31 March 2007, the Group has concentration of credit risk in the trade receivables balance amounting to approximately HK\$37,720,000 derived from a few major customers. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

5. TURNOVER

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bleaching and dyeing		
- sales of goods	71,707	47,727
- service income	<u>4,257</u>	<u>10,209</u>
	75,964	57,936
Knitting services	<u>—</u>	<u>103</u>
	<u><u>75,964</u></u>	<u><u>58,039</u></u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group's primary format for reporting segment information is business segments. For management purposes, the Group is currently organised into two main operating divisions - bleaching and dyeing and knitting. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 March 2007

(i) Income statement

	Bleaching and dyeing	Knitting	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
External	75,964	—	—	75,964
Inter-segment (<i>note</i>)	—	8,292	(8,292)	—
Total	<u>75,964</u>	<u>8,292</u>	<u>(8,292)</u>	<u>75,964</u>
Segment result	<u>(2,400)</u>	<u>(2,334)</u>	<u>—</u>	(4,734)
Interest income				1,926
Unallocated corporate expenses				(6,948)
Finance costs				<u>(153)</u>
Loss before taxation				(9,909)
Taxation				<u>(1,572)</u>
Loss for the year				<u>(11,481)</u>

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

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

(ii) Balance sheet

	Bleaching and dyeing	Knitting	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Segment assets	103,907	18,716	122,623
Unallocated corporate assets			<u>82,256</u>
Consolidated total assets			<u><u>204,879</u></u>
LIABILITIES			
Segment liabilities	19,800	3,053	22,853
Unallocated corporate liabilities			<u>13,392</u>
Consolidated total liabilities			<u><u>36,245</u></u>

(iii) Other information

	Bleaching and dyeing	Knitting	Unallocated	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital additions	2,779	409	42,058	45,246
Depreciation	1,931	1,340	61	3,332
Loss on disposal of property, plant and equipment	<u>127</u>	<u>—</u>	<u>—</u>	<u>127</u>

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

For the year ended 31 March 2006

(i) Income statement

	Bleaching and dyeing	Knitting	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
External	57,936	103	—	58,039
Inter-segment (<i>note</i>)	<u>4</u>	<u>5,465</u>	<u>(5,469)</u>	<u>—</u>
Total	<u>57,940</u>	<u>5,568</u>	<u>(5,469)</u>	<u>58,039</u>
Segment result	<u>(25,366)</u>	<u>(1,434)</u>	<u>—</u>	(26,800)
Interest income				1,291
Unallocated corporate expenses				(6,073)
Finance costs				<u>(1,275)</u>
Loss for the year				<u>(32,857)</u>

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

(ii) Balance sheet

	Bleaching and dyeing	Knitting	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Segment assets	53,728	13,034	66,762
Unallocated corporate assets			<u>118,779</u>
Consolidated total assets			<u>185,541</u>
LIABILITIES			
Segment liabilities	7,535	1,140	8,675
Unallocated corporate liabilities			<u>1,838</u>
Consolidated total liabilities			<u>10,513</u>

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

(iii) Other information

	Bleaching and dyeing	Knitting	Unallocated	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital additions	430	410	3,254	4,094
Depreciation	2,004	1,315	53	3,372
Loss on disposal of property, plant and equipment	<u>96</u>	<u>—</u>	<u>—</u>	<u>96</u>

Geographical segments

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
United States of America	—	366
Mainland China	<u>75,964</u>	<u>57,673</u>
	<u>75,964</u>	<u>58,039</u>

An analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	1,567	266	—	—
Mainland China	<u>173,920</u>	<u>75,257</u>	<u>45,246</u>	<u>4,094</u>
	<u>175,487</u>	<u>75,523</u>	<u>45,246</u>	<u>4,094</u>

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP****7. FINANCE COSTS**

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	<u>153</u>	<u>1,275</u>

8. LOSS BEFORE TAXATION

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation has been arrived at after charging:		
Directors' remuneration (<i>note 9(a)</i>)	2,700	700
Other staff costs, including retirement benefits costs	<u>8,151</u>	<u>6,486</u>
Total staff costs	<u>10,851</u>	<u>7,186</u>
Depreciation	3,332	3,372
Amortisation of prepaid lease payments	301	168
Auditor's remuneration	726	538
Loss on disposal of property, plant and equipment	127	96
Cost of inventories recognised as an expense	68,629	41,536
Allowance for inventories	—	214
and after crediting:		
Interest income	1,926	1,291
Write back of allowance for inventories	<u>96</u>	<u>—</u>

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

Details of emoluments to the directors of the Company for the year ended 31 March 2007 are as follows:

	Tse Wing Chiu Ricky	Lui Yuk Chu	Kan Ka Hon	Kwong Jimmy Cheung Tim	Lau Sin Ming	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	—	—	100	100	100	300
Other emoluments						
— Salaries and other benefits	1,200	1,200	—	—	—	2,400
Total directors' emoluments	<u>1,200</u>	<u>1,200</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>2,700</u>

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

	Tse Wing Chiu Ricky	Lui Yuk Chu	Koon Wing Yee	Tsang Yiu Kai	Kan Ka Hon	Kwong Jimmy Cheung Tim	Lau Sin Ming	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	—	—	—	—	100	100	100	300
Other emoluments								
— Salaries and other benefits	200	200	—	—	—	—	—	400
Total directors' emoluments	<u>200</u>	<u>200</u>	<u>—</u>	<u>—</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>700</u>

(b) Information regarding employees' emoluments

The five highest paid individuals of the Group included two (2006: two) directors whose emoluments were included above. The emoluments of the remaining three (2006: three) highest paid individuals, not being directors, are as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	1,206	943
Retirement benefits costs	<u>35</u>	<u>30</u>
	<u>1,241</u>	<u>973</u>

Their emoluments were all within HK\$1,000,000.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during both periods, no director waived any emoluments.

10. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for the years ended 31 March 2007 and 2006. The amount for the year represents the taxation charge in Mainland China.

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

On 16 March 2007, the Enterprise Income Tax Law (the "new EIT law") was passed at the Fifth Session of the Tenth National People's Congress of the People's Republic of China. The new EIT law will be effective as of 1 January 2008. However, the detailed implementation rules regarding the new EIT law have not yet been issued and therefore the Group is not in a position to determine whether the Company's subsidiaries will still be entitled to the preferential tax treatment mentioned above.

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Loss before taxation	<u>(9,909)</u>	<u>(32,857)</u>
Tax credit at the applicable rate of 33%	(3,270)	(10,843)
Tax effect of income not taxable for tax purpose	(399)	(308)
Tax effect of expenses not deductible for tax purpose	3,364	10,008
Tax effect of utilisation of tax losses not previously recognised	—	(220)
Tax effect of tax losses not recognised	2,076	1,220
Tax effect attributable to concessionary tax rate in Mainland China jurisdiction	(349)	—
Others	<u>150</u>	<u>143</u>
Taxation for the year	<u>1,572</u>	<u>—</u>

11. BASIC LOSS PER SHARE

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Loss for the purposes of basic loss per share	<u>(11,481)</u>	<u>(32,857)</u>
	2007	2006
Number of shares		
Weighted average number of shares for the purposes of basic loss per share	<u>3,927,075,240</u>	<u>2,211,495,987</u>

The denominator for the purposes of calculating basic loss per share for the year ended 31 March 2006 has been adjusted to reflect the bonus issue of share on the basis of nine bonus shares for every share held in June 2006.

No diluted loss per share has been presented for the year ended 31 March 2006 as the exercise of the Company's outstanding share options would reduce the loss per share for that year.

No diluted loss per share has been presented for the year ended 31 March 2007 as there are no outstanding share options during the year.

12. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of bleached and dyed fabrics	—	2,983
Bleaching and dyeing charges received	—	1,270
	<u> </u>	<u> </u>

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	—	1
	<u> </u>	<u> </u>

- (b) During the year, the Group received administrative services from a wholly owned subsidiary of Easyknit International, Easyknit International Trading Company Limited, a company in which Ms. Lui Yuk Chu, a director of the Company, has beneficial interests and paid services fee of HK\$240,000 (2006: HK\$240,000).
- (c) In the prior year, a former director of the Company provided a personal guarantee for HK\$55,000,000 to a bank in respect of general banking facilities granted to a wholly-owned subsidiary of the Company. The relevant bank loans of the subsidiary were fully repaid by applying the net proceeds from the rights issue of the Company in September 2005.
- (d) Compensation of key management personnel

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	3,018	932
	<u> </u>	<u> </u>

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

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST					
At 1 April 2005	22,708	2,467	1,134	—	26,309
Currency realignment	380	82	18	—	480
Additions	107	83	271	3,633	4,094
Disposals	—	(265)	—	—	(265)
At 31 March 2006	23,195	2,367	1,423	3,633	30,618
Currency realignment	703	154	46	130	1,033
Additions	2,156	402	107	42,581	45,246
Disposals	(542)	(16)	(96)	—	(654)
At 31 March 2007	25,512	2,907	1,480	46,344	76,243
DEPRECIATION					
At 1 April 2005	1,945	537	166	—	2,648
Currency realignment	78	35	3	—	116
Provided for the year	2,421	699	252	—	3,372
Eliminated on disposal	—	(114)	—	—	(114)
At 31 March 2006	4,444	1,157	421	—	6,022
Currency realignment	242	108	16	—	366
Provided for the year	2,500	580	252	—	3,332
Eliminated on disposal	(242)	(12)	(59)	—	(313)
At 31 March 2007	6,944	1,833	630	—	9,407
CARRYING VALUES					
At 31 March 2007	18,568	1,074	850	46,344	66,836
At 31 March 2006	18,751	1,210	1,002	3,633	24,596

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

Plant and machinery	5 to 10 years
Furniture, fixtures and equipment	3 to 10 years
Motor vehicles	5 to 10 years

14. PREPAID LEASE PAYMENTS

	<i>HK\$'000</i>	
COST		
Additions and at 31 March 2006		9,165
Currency realignment		407
Additions		<u>23,209</u>
At 31 March 2007		<u>32,781</u>
AMORTISATION		
Provided for the year and at 31 March 2006		168
Currency realignment		14
Provided for the year		<u>301</u>
At 31 March 2007		<u>483</u>
CARRYING VALUE		
At 31 March 2007		<u><u>32,298</u></u>
At 31 March 2006		<u><u>8,997</u></u>
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purposes as:		
Current asset	656	183
Non-current asset	<u>31,642</u>	<u>8,814</u>
	<u><u>32,298</u></u>	<u><u>8,997</u></u>

All of the Group's prepaid lease payments comprise medium-term land use rights situated in the Mainland China. At 31 March 2007, the Group was in the process of obtaining the land use rights certificate for land use rights with carrying value amounting to approximately HK\$28,258,000.

15. INVENTORIES

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	14,830	4,531
Work-in-progress	120	21
Finished goods	<u>495</u>	<u>77</u>
	<u>15,445</u>	<u>4,629</u>

16. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of up to 90 days to its customers. The aged analysis of trade receivables at the balance sheet date is as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	10,026	7,504
61 - 90 days	10,655	2,340
Over 90 days	<u>21,007</u>	<u>9,934</u>
Trade receivables	41,688	19,778
Other receivables and prepayments	<u>3,095</u>	<u>1,895</u>
	<u>44,783</u>	<u>21,673</u>

The directors consider the fair value of the Group's trade receivables approximates the corresponding carrying amount.

17. BANK BALANCES AND CASH

The amounts comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, at prevailing market interest rates ranging from 0.72% to 2.375% (2006: 0.72% to 4.19%) per annum. The directors consider the fair values of these assets approximate their corresponding carrying amounts.

18. TRADE AND OTHER PAYABLES

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	4,444	4,963
61 - 90 days	2,494	1,286
Over 90 days	<u>1,408</u>	<u>233</u>
Trade payables	8,346	6,482
Other payables	<u>16,107</u>	<u>2,365</u>
	<u>24,453</u>	<u>8,847</u>

The directors consider the fair value of the Group's trade payables approximates the corresponding carrying amount.

19. BILLS PAYABLE

As at balance sheet date, the bills payable is aged within 120 days. The directors consider the fair value of the Group's bills payable approximates the corresponding carrying amount.

20. BANK LOANS

The bank loans are unsecured, bear interest at prevailing market rates and are repayable within one year.

All of the Group's borrowings were at variable-rates and the range of effective interest rates on the Group's borrowings are 1% per annum over the bank's HK\$ best lending rates ranging from 8.75% to 9% for the year (2006: 6.25% to 9%).

As at balance sheet date, the Group's borrowings that are denominated in US dollars is HK\$6,038,000 (2006: HK\$984,000) and the undrawn borrowing facilities is HK\$3,446,000 (2006: HK\$8,334,000).

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

21. SHARE CAPITAL

	<i>Notes</i>	Nominal value per share <i>HK\$</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised:				
At 1 April 2005		0.10	6,500,000,000	650,000
Effect of the capital reduction	(a)(i)		<u>—</u>	<u>(643,500)</u>
		0.001	6,500,000,000	6,500
Effect of the share consolidation	(a)(iii)		<u>(5,850,000,000)</u>	<u>—</u>
At 31 March 2006		0.01	650,000,000	6,500
Increase in authorised share capital	(c)(i)	0.01	<u>19,350,000,000</u>	<u>193,500</u>
At 31 March 2007		0.01	<u>20,000,000,000</u>	<u>200,000</u>
Issued and fully paid:				
At 1 April 2005		0.10	357,006,840	35,701
Effect of the capital reduction	(a)(i)		<u>—</u>	<u>(35,344)</u>
		0.001	357,006,840	357
Effect of the share consolidation	(a)(iii)		<u>(321,306,156)</u>	<u>—</u>
		0.01	35,700,684	357
Rights issue of shares at a price of HK\$0.40 per rights share	(b)	0.01	<u>357,006,840</u>	<u>3,570</u>
At 31 March 2006		0.01	392,707,524	3,927
Bonus issued by capitalisation of the share premium account	(c)(ii)	0.01	<u>3,534,367,716</u>	<u>35,344</u>
At 31 March 2007		0.01	<u>3,927,075,240</u>	<u>39,271</u>

Notes:

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

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

- (i) the par value of the authorised, issued and unissued share capital of the Company was reduced from HK\$0.10 each to HK\$0.001 each (the “Capital Reduction”);
 - (ii) the amount of the cancelled paid-up capital in the sum of approximately HK\$35,344,000 arising from the Capital Reduction was credited to a capital reserve account of the Company; and
 - (iii) every ten issued and unissued reduced shares of HK\$0.001 each were consolidated into one share of HK\$0.01 each (the “Consolidated Share”).
- (b) Rights issue of 357,006,840 shares of HK\$0.01 each at a subscription price of HK\$0.40 per rights share were allotted on 27 September 2005 to the shareholders of the Company in the proportion of ten rights shares for every Consolidated Share then held. The net proceeds of the rights issue amounted to approximately HK\$142,000,000 of which approximately HK\$69,000,000 was used for repayment of all outstanding bank loans, and the balance for general working capital purposes. All shares issued rank pari passu with the then existing shares in issue in all respects.
- (c) As announced by the Company on 2 May 2006, the Company proposed the followings:
- (i) to increase the authorised share capital of the Company from HK\$6,500,000 to HK\$200,000,000 by the creation of an additional 19,350,000,000 shares of HK\$0.01 each (the “Increase in Authorised Share Capital”); and
 - (ii) upon the Increase in Authorised Share Capital becoming effective, to issue 3,534,367,716 bonus shares of HK\$0.01 each by way of capitalisation of an amount of approximately HK\$35,344,000 from the Company’s share premium account on the basis of nine bonus shares for every share held (the “Bonus Issue”).

At the special general meeting of the Company held on 19 June 2006, resolutions approving the Increase in Authorised Share Capital and the Bonus Issue were passed. The Increase in Authorised Share Capital and Bonus Issue became effective on 19 June 2006 and 27 June 2006 respectively.

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

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

22. SHARE OPTION SCHEMES

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

On 6 June 2002, a new share option scheme (the “2002 Share Option Scheme”) was approved by the shareholders of the Company. Under the terms of the 2002 Share Option Scheme, the board of directors of the Company may, at its absolute discretion, offer options to any employee (full-time and part-time), director, supplier, consultant or advisor of any member of the Group to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

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

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

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

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

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

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

No share options have been granted under the 2002 Share Option Scheme since its adoption.

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

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

Notes:

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

- (ii) The number and exercise price of the share options were not adjusted to reflect the share consolidation in September 2005.

No share options were granted, exercised or cancelled during the years ended 31 March 2007 and 31 March 2006.

23. DEFERRED TAXATION

At 31 March 2007, deductible temporary difference in respect of tax losses not recognised in the financial statements were approximately HK\$22,915,000 (2006: HK\$16,625,000). No deferred tax asset has been recognised in respect of such deductible temporary difference due to the unpredictability of future profit streams. Included in the above are tax losses of approximately HK\$4,691,000 (2006: HK\$3,483,000), which can only be carried forward for a maximum period of five years. Other losses may be carried forward indefinitely.

24. CAPITAL COMMITMENTS

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted but not provided for in the financial statements in respect of:		
- acquisition of property, plant and equipment	80,104	5,903
- capital injection for interests in a jointly controlled entity and a non wholly-owned subsidiary	<u>—</u>	<u>20,904</u>
	<u>80,104</u>	<u>26,807</u>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	<u>347,771</u>	<u>466,733</u>

25. OPERATING LEASE ARRANGEMENTS

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payments recognised in the consolidated income statement during the year	<u>1,472</u>	<u>1,596</u>

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,442	1,301
In the second to fifth year inclusive	4,926	5,648
Over five years	<u>1,396</u>	<u>1,871</u>
	<u>7,764</u>	<u>8,820</u>

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for lease terms ranging from two to eleven years.

Under the leases entered into by the Group, the lease payments are fixed and no arrangements have been entered into for contingent rental payments.

26. RETIREMENT BENEFITS SCHEMES

The Group operates defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

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

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

Employees of the subsidiaries in the Mainland China are members of the state-sponsored pension scheme operated by the Mainland China government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Employers' contributions charged to the consolidated income statement	<u>143</u>	<u>90</u>

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

27. SIGNIFICANT EVENTS

Reference is made to the announcements issued by Easyknit International dated 1 February 2007 and 6 February 2007, the announcements issued by the Company dated 30 November 2006, 1 February 2007 and 6 February 2007, and the joint announcement issued by Easyknit International and the Company dated 30 March 2007 (the "Announcements").

The Company has entered into a non-binding letter of intent subject to contract which may or may not lead to a possible merger (the "Possible Merger") on 29 November 2006. The counter party to the letter of intent is Wits Basin Precious Minerals Inc. ("Wits Basin"), a company incorporated in Minnesota, the United States of America whose principal business is the exploration and development of minerals in Mexico, Colorado and South Africa.

The Company and Wits Basin entered into a non-binding heads of agreement on 2 February 2007 in respect of the Possible Merger (the "First Heads of Agreement"). Under the terms of the First Heads of Agreement, it is intended that the Possible Merger may involve an issue of approximately 3 billion shares by the Company to the shareholders of Wits Basin in consideration of the transfer of all their shares in Wits Basin to a wholly-owned subsidiary to be incorporated by the Company. If this happens, the shareholding of Easyknit International may be diluted from approximately 35.93% to approximately 20% and the Company will seek shareholders' approval for the issue of the consideration shares.

On 30 March 2007, the Company entered into a non-binding heads of agreement with Wits Basin (the "Second Heads of Agreement") to amend the First Heads of Agreement, in which the parties set forth their desire to enter into a definitive merger agreement and related documents for the Possible Merger (the "Definitive Agreements") by 31 March 2007, for an extension of time to enter into the Definitive Agreements.

28. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share capital/ paid-up registered capital/ stated capital	Proportion of nominal value of issued share capital/paid-up registered capital/ stated capital held by the Company		Principal activities
			Directly	Indirectly	
Easyknit (Mauritius) Limited	Republic of Mauritius/ Hong Kong	Stated US\$1	100%	—	Investment holding
Po Cheong International Enterprises Limited	Hong Kong	Ordinary HK\$90	—	100%	Investment holding
Tat Cheong International (HK) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
東莞永耀漂染有限公司 ("Wing Yiu")*	PRC	Registered HK\$11,260,000	—	100%	Bleaching and dyeing
永義紡織(河源)有限公司 ("He Yuan")**	PRC	Registered US\$1,000,000	—	100%	Knitting
永義製衣(湖洲)有限公司 ("Huzhou Garment")***	PRC	Registered US\$7,004,237	—	100%	Garment manufacturing
永義紡織(湖洲)有限公司 ("Huzhou Knitting")****	PRC	Registered US\$2,711,921	—	100%	Knitting
永義漂染(湖洲)有限公司 ("Huzhou Bleaching and Dyeing")*****	PRC	Registered US\$3,009,110	—	100%	Bleaching and dyeing

Notes:

* Wing Yiu is a wholly foreign owned enterprise established in the PRC, to be operated for 10 years up to 20 August 2011.

** He Yuan is a wholly foreign owned enterprise established in the PRC, to be operated for 15 years up to 7 March 2019.

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

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

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

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

None of the subsidiaries had issued any debt securities at 31 March 2007.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present available financial resources, the existing banking facilities available and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements and for the period up to 12 months from the date of this Prospectus in the absence of unforeseen circumstances.

4. INDEBTEDNESS

At the close of business on 30 November 2007, being the latest practicable date for ascertaining this indebtedness prior to the printing of this Prospectus, the Group had no outstanding borrowings.

Apart from intra-group liabilities, the Group did not have at the close of business on 30 November 2007 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

5. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared to illustrate the effect of the Rights Issue on the net tangible assets of the Group as if the Rights Issue had been completed on 30 September 2007. As it is prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group upon completion of the Rights Issue.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the net tangible assets of the Group as at 30 September 2007 as extracted from the published unaudited interim report of the Group for the six months ended 30 September 2007 and is adjusted for the effect of the Rights Issue.

Unaudited consolidated net tangible assets as at 30 September 2007 HK\$'000	Estimated net proceeds from the Rights Issue (Note 1) HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group as at 30 September 2007 as adjusted for the Rights Issue HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets per Share as at 30 September 2007 as adjusted for the Rights Issue (Note 2) HK\$
<u>158,646</u>	<u>100,000</u>	<u>258,646</u>	<u>0.044</u>

Notes:

1. The estimated net proceeds from the Rights Issue are based on 1,963,537,620 Rights Shares of HK\$0.01 each at HK\$0.052 per Rights Share, after deducting the estimated underwriting fees and other related expenses of approximately HK\$2.1 million to be incurred by the Company.
2. The calculation of the unaudited pro forma adjusted consolidated net tangible assets per Share is based on 5,890,612,860 Shares including 3,927,075,240 Shares in issue as at 30 September 2007 and 1,963,537,620 Rights Shares.

6. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**TO THE DIRECTORS OF EASYKNIT ENTERPRISES HOLDINGS LIMITED**

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of Easyknit Enterprises Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the rights issue of 1,963,537,620 rights shares of HK\$0.01 each at HK\$0.052 per rights share on the basis of one rights share for every two shares held might have affected the consolidated net tangible assets of the Group presented, for inclusion in Section 5 of Appendix II to the prospectus of the Company dated 31 December 2007 (the “Prospectus”). The basis of preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets is set out in Section 5 of Appendix II to 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 statement of adjusted consolidated net tangible assets in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to 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 paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma statement of adjusted consolidated net tangible assets 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 statement of adjusted consolidated net tangible assets 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 consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted consolidated net tangible assets with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

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 statement of adjusted consolidated net tangible assets 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 statement of adjusted consolidated net tangible assets as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma statement of adjusted consolidated net tangible assets is for illustrative purposes only, based on the judgments 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 30 September 2007 or any future date.

Opinion

In our opinion:

- a) the unaudited pro forma statement of adjusted consolidated net tangible assets 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 statement of adjusted consolidated net tangible assets as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu*Certified Public Accountants*

Hong Kong

31 December 2007

1. RESPONSIBILITY STATEMENT

This Prospectus includes particulars given in compliance with 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 herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the Directors and the chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

A. Interests in issued Shares

Name of Director	Nature of interest	Number of issued Shares (long position)	Approximate percentage of interest
Ms. Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	1,410,852,520	35.93%

Note: The 1,410,852,520 Shares relate to the same block of Shares in the Company. These Shares were registered in the name of and were beneficially owned by Landmark Profits which was a wholly-owned subsidiary of Easyknit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than spouse).

B. Interests in unissued Shares

Name of Director	Nature of interest	Number of unissued Shares (long position)	Approximate percentage of interest
Ms. Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	705,426,260	35.93%

Note: The 705,426,260 Shares are the Rights Shares which Landmark Profits has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Landmark Profits was a wholly-owned subsidiary of Easyknit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than spouse).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers.

None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 March 2007 (the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (“Substantial Shareholders”) (other than the Directors or the chief executive of the Company) who had 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 were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or had any options in respect of such shares are set out below:

A. Interest in issued Shares

Name of Substantial Shareholder	Nature of interest	Number of issued Shares (long position)	Approximate percentage of interest
Mr. Koon Wing Yee (<i>Note 1</i>)	Interest of spouse	1,410,852,520	35.93%
Landmark Profits (<i>Notes 1 & 2</i>)	Beneficial owner	1,410,852,520	35.93%
Easyknit International (<i>Notes 1 & 2</i>)	Interest of controlled corporation	1,410,852,520	35.93%
Magical Profits Limited (<i>Notes 1 & 3</i>)	Interest of controlled corporation	1,410,852,520	35.93%
Accumulate More Profits Limited (<i>Notes 1 & 3</i>)	Interest of controlled corporation	1,410,852,520	35.93%
Hang Seng Bank Trustee International Limited (<i>Notes 1 & 4</i>)	Trustee	1,410,852,520	35.93%
Hang Seng Bank Limited (<i>Note 4</i>)	Interest of controlled corporation	1,410,852,520	35.93%
The Hongkong and Shanghai Banking Corporation Limited (<i>Note 4</i>)	Interest of controlled corporation	1,410,852,520	35.93%
HSBC Asia Holdings BV (<i>Note 4</i>)	Interest of controlled corporation	1,410,852,520	35.93%
HSBC Asia Holdings (UK) (<i>Note 4</i>)	Interest of controlled corporation	1,410,852,520	35.93%
HSBC Holdings BV (<i>Note 4</i>)	Interest of controlled corporation	1,410,852,520	35.93%
HSBC Finance (Netherlands) (<i>Note 4</i>)	Interest of controlled corporation	1,410,852,520	35.93%
HSBC Holdings plc (<i>Note 4</i>)	Interest of controlled corporation	1,410,852,520	35.93%

Notes:

- The 1,410,852,520 Shares relate to the same block of Shares in the Company. These Shares were registered in the name of and were beneficially owned by Landmark Profits, which was a wholly-owned subsidiary of Easyknit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, a director of the Company, and her family members other than her spouse) Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu was deemed to be interested in the 1,410,852,520 shares by virtue of the SFO.
- Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu, being the directors of the Company, are also directors of Landmark Profits and Easyknit International.

3. Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited and Accumulate More Profits Limited.
4. Hang Seng Bank Trustee International Limited was a wholly-owned subsidiary of Hang Seng Bank Limited. Hang Seng Bank Limited was owned as to approximately 62.14% by The Hongkong and Shanghai Banking Corporation Limited. The Hongkong and Shanghai Banking Corporation Limited was wholly-owned by HSBC Asia Holdings BV which was a wholly-owned subsidiary of HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) was wholly-owned by HSBC Holdings BV which in turn was wholly-owned by HSBC Finance (Netherlands). HSBC Finance (Netherlands) was a wholly-owned subsidiary of HSBC Holdings plc.

B. Interest in unissued Shares

Name of Substantial Shareholder	Nature of interest	Number of unissued Shares (long position)
Mr. Koon Wing Yee (<i>Note 1</i>)	Interest of spouse	705,426,260
Landmark Profits (<i>Notes 1 & 2</i>)	Beneficial owner	705,426,260
Easyknit International (<i>Notes 1 & 2</i>)	Interest of controlled corporation	705,426,260
Magical Profits Limited (<i>Notes 1 & 3</i>)	Interest of controlled corporation	705,426,260
Accumulate More Profits Limited (<i>Notes 1 & 3</i>)	Interest of controlled corporation	705,426,260
Hang Seng Bank Trustee International Limited (<i>Notes 1 & 4</i>)	Trustee	705,426,260
Hang Seng Bank Limited (<i>Note 4</i>)	Interest of controlled corporation	705,426,260
The Hongkong and Shanghai Banking Corporation Limited (<i>Note 4</i>)	Interest of controlled corporation	705,426,260
HSBC Asia Holdings BV (<i>Note 4</i>)	Interest of controlled corporation	705,426,260
HSBC Asia Holdings (UK) (<i>Note 4</i>)	Interest of controlled corporation	705,426,260
HSBC Holdings BV (<i>Note 4</i>)	Interest of controlled corporation	705,426,260
HSBC Finance (Netherlands) (<i>Note 4</i>)	Interest of controlled corporation	705,426,260
HSBC Holdings plc (<i>Note 4</i>)	Interest of controlled corporation	705,426,260
Kingston Securities Limited (<i>Note 5</i>)	Other	1,258,111,360
Chu Yuet Wah (<i>Note 5</i>)	Interest of controlled corporation	1,258,111,360
Ma Siu Fong (<i>Note 5</i>)	Interest of controlled corporation	1,258,111,360
Cheer Union Securities Limited (<i>Note 6</i>)	Other	384,615,000

Notes:

1. The 705,426,260 Shares are the Rights Shares which Landmark Profits has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Landmark Profits was a wholly-owned subsidiary of Easyknit International. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical Profits Limited was wholly-owned by Accumulate More profits Limited which in turn was wholly-owned by Hang Seng Bank Trustee International Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, a Director, and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 705,426,260 Shares by virtue of the SFO.

2. Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu, being the directors of the Company, are also directors of Landmark Profits and Easyknit International.
3. Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited and Accumulate More Profits Limited.
4. Hang Seng Bank Trustee International Limited was a wholly-owned subsidiary of Hang Seng Bank Limited. Hang Seng Bank Limited was owned as to approximately 62.14% by The Hongkong and Shanghai Banking Corporation Limited. The Hongkong and Shanghai Banking Corporation Limited was wholly-owned by HSBC Asia Holdings BV which was a wholly-owned subsidiary of HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) was wholly-owned by HSBC Holdings BV which in turn was wholly-owned by HSBC Finance (Netherlands). HSBC Finance (Netherlands) was a wholly-owned subsidiary of HSBC Holdings plc.
5. The 1,258,111,360 Shares are the Rights Shares which the Underwriter has underwritten in respect of the Rights Issue. The Underwriter is owned as to 51% by Chu Yuet Wah and as to 49% by Ma Siu Fong, both of whom are Independent Third Parties.
6. The 384,615,000 Shares are the Rights Shares which Cheer Union Securities Limited has sub-underwritten in respect of the Rights Issue from the Underwriter.

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

4. MATERIAL CONTRACTS

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

- (a) A conditional merger agreement entered into between Wits Basin and the Company and its wholly owned subsidiary Race Merger, Inc. on 20 April 2007 for the possible merger between the Group and Wits Basin (“Merger Agreement”), which involved a possible issue of about 3,345,286,315 shares of the Company in the form of American Depositary Shares. On 19 December 2007, the Company and Race Merger, Inc. entered into a settlement agreement and general release with Wits Basin, pursuant to which the Merger Agreement was terminated and the possible merger with Wits Basin will not proceed;
- (b) An agreement dated 18 July 2006 and three supplemental agreements dated 1 September 2006, 1 September 2006 and 23 October 2006 respectively entered into between Easyknit Garment (Huzhou) Co. Limited (“Easyknit Garment”), a wholly owned subsidiary of the Company, and 惠州市建築工程總公司 in relation to the construction of two factory blocks and four labour quarters and the extra foundation work on the land owned by Easyknit Garment in Huzhou (“Garment Land”) at a total consideration of RMB55,142,193;

- (c) an agreement dated 8 February 2007 entered into between Easyknit Garment and 中建三局第二建設工程有限責任公司 in relation to the construction of two factory blocks and two labour quarters and the associated electrical and mechanical works therein on the Garment Land at a total consideration of RMB49,591,083.88;
- (d) a cancellation agreement dated 23 November 2007 between Easyknit Garment and 中建三局第二建設工程有限責任公司 to void the agreement mentioned in (c) above; and
- (e) the Underwriting Agreement.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and, so far as the Directors are aware, there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. MATERIAL ADVERSE CHANGES

The Directors are of the opinion that, save as disclosed in the interim report of the Company for the six months ended 30 September 2007, there has not been any material adverse change in the financial or trading position of the Group since 31 March 2007, being the date to which the latest published audited accounts of the Group were made up.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing nor proposed service contracts with any member of the Group, save for the contracts which will expire or are terminable by the Group within one year without payment of compensation, other than statutory compensation.

9. EXPENSES

The expenses in connection with the Rights Issue, including but not limited to financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to amount to approximately HK\$2.1 million and are payable by the Company.

10. QUALIFICATION OF EXPERTS AND CONSENT

The following is the qualification of the experts who have given opinion or advice contained in the Prospectus:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants

Messrs. Deloitte Touche Tohmatsu have given and have not withdrawn their written consent to the issue of the Prospectus with the inclusion herein of their report and letter (if any), as the case may be, or references to their name in the form and context in which they respectively appear.

11. EXPERTS' INTERESTS IN ASSETS

As at the Latest Practicable Date, Messrs. Deloitte Touche Tohmatsu:

- (a) were not interested, directly or indirectly in any assets which have been, since 31 March 2007 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group; and
- (b) did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

12. MISCELLANEOUS

The English text of the Prospectus, the PAL and the EAF shall prevail over the Chinese text in the case of inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong up to and including 21 January 2008:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the irrevocable undertaking letter dated 29 November 2007;
- (c) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (d) the annual reports of the Company for the two years ended 31 March 2007;
- (e) the interim report of the Company for the six months ended 30 September 2007;

- (f) the letter of consent referred to in the section headed “Qualification of Experts and Consent” in this appendix;
- (g) the accountants’ report on pro forma financial information relating to unaudited adjusted consolidated net tangible asset value; and
- (h) the Prospectus.