THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Easyknit Enterprises Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the shareholders of the Company in connection with a special general meeting of the Company to be held on Wednesday, 24 December 2008. This circular is not and does not constitute an offer of, nor is it intended to invite offers for, shares in or other securities of the Company.

Easyknit Enterprises Holdings Limited
永義實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code : 616)

PROPOSED RIGHTS ISSUE OF 667,499,000 RIGHTS SHARES OF HK$0.01 EACH AT HK$0.15 PER RIGHTS SHARE ON THE BASIS OF TEN RIGHTS SHARES FOR EVERY EXISTING SHARE HELD

Underwriter of the Rights Issue

結好證券有限公司
GET NICE SECURITIES LIMITED

Independent Financial Adviser to the Independent Board Committee

Menlo Capital 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 Day if there occurs:

1. (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 United States of America) 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. if, at or prior to 4:00 p.m. on the Settlement Date:

   (a) 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

   (b) the Underwriter receives the 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

   (c) the Prospectus Documents when published, contains information which would be untrue or inaccurate in any material respect and the Company has failed to promptly send out 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.

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 any 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 such right, the Rights Issue will not proceed.

It should be noted that the Shares will be dealt in on an ex-rights basis from Thursday, 18 December 2008. Dealings in the Rights Shares in the nil-paid form will take place from Wednesday, 31 December 2008 to Monday, 12 January 2009 (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 Wednesday, 31 December 2008 to Monday, 12 January 2009 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

A notice convening the SGM of the Shareholders of Easyknit Enterprises Holdings Limited to be held at 7th Floor, Hong Kong Spinners Buildings, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on Wednesday, 24 December 2008 at 9:30 a.m. (or as soon thereafter as the special general meeting of Easyknit International Holdings Limited to be held at 9:00 a.m. on the same day and at the same place shall have been concluded or adjourned) at which a resolution will be proposed to consider and, if thought fit, approve the Rights Issue is set out on pages 112 to 114 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit to the Company's principal place of business in Hong Kong at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you wish.

A letter of advice from Menlo Capital Limited, the independent financial adviser to the Independent Board Committee of Easyknit Enterprises Holdings Limited, is set out on pages 28 to 44 of this circular.

* *For identification only*

8 December 2008

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

"Acceptance Date"	15 January 2009 (or such other date as the Underwriter may agree in writing with the Company as the latest date for acceptance of, and payment of, Rights Shares)
"acting in concert"	has the meaning ascribed thereto in the Takeovers Code
"Announcement"	the announcement of the Company dated 12 November 2008 relating to the proposed Rights Issue
"associate(s)"	has the same meaning ascribed thereto 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
"Company" or "Easyknit Enterprises"	Easyknit Enterprises Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
"Companies Act"	The Companies Act 1981 of Bermuda (as amended)
"connected persons"	has the meanings ascribed thereto in the Listing Rules
"Director(s)"	director(s) of the Company
"EAF(s)"	the excess application form(s) to be 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 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

"Huzhou Project"	acquisition of a land of approximately 632 mu at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC and the development of manufacturing production, bleaching, dyeing and knitting operations and the construction of the waste water treatment plant
"Independent Board Committee"	the independent board committee of the Company comprising the independent non-executive Directors, namely, Mr. Kan Ka Hon, Mr. Lau Sin Ming and Mr. Foo Tak Ching
"Independent Financial Adviser" or "Menlo Capital"	Menlo Capital Limited, a licensed corporation for type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue
"Independent Shareholders"	Shareholders other than Landmark Profits and its associates
"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
"Landmark Profits"	Landmark Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Easyknit International, which holds approximately 31.7% of the issued shares of the Company and is a controlling shareholder of the Company
"Last Trading Day"	5 November 2008, being the last trading day before the suspension of the trading in the Shares, pending the release of the Announcement
"Latest Practicable Date"	3 December 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"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 the legal advisers, consider it necessary or expedient not to offer the Rights Issue to such Overseas Shareholders on account either of the legal restrictions under the laws of the relevant place or the requirements of a relevant regulatory body or stock exchange in that place

"Overseas Shareholders"	Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong
"PAL(s)"	the provisional allotment letter(s) to be issued in connection with the Rights Issue
"PRC"	the People's Republic of China
"Prospectus"	a prospectus containing details of the Rights Issue to be issued in connection with the Rights Issue
"Prospectus Documents"	the Prospectus, PAL and EAF
"Qualifying Shareholder(s)"	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date
"Record Date"	24 December 2008 or such other date as the Underwriter may agree in writing with the Company as the date by reference to which entitlements to the Rights Issue are expected to be determined
"Rights Issue"	the proposed rights issue of 667,499,000 Rights Shares at a subscription price of HK$0.15 per Rights Share on the basis of 10 Rights Shares for every existing Share held on the Record Date
"Rights Share(s)"	667,499,000 Share(s) to be issued and allotted under the Rights Issue
"RMB"	Renminbi, the lawful currency of the PRC
"Settlement Date"	the date being the second 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)

"SGM"	the special general meeting of the Company to be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on Wednesday, 24 December 2008 at 9:30 a.m. (or as soon thereafter as the special general meeting of Easyknit International Holdings Limited to be held at 9:00 a.m. on the same day and at the same place shall have been concluded or adjourned) at which a resolution will be proposed to consider and, if thought fit, approve the Rights Issue
"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
"Subscription Price"	the subscription price of HK$0.15 per Rights Share under the Rights Issue
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Undertaking"	the conditional undertaking letter dated 5 November 2008 from Landmark Profits to Easyknit Enterprises and the Underwriter as described in the section headed "Undertaking from Landmark Profits" in the Letter from the Board in this circular
"Underwriter"	Get Nice Securities Limited, a deemed licensed corporation to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO
"Underwriting Agreement"	the underwriting agreement dated 5 November 2008 (as amended by a supplemental agreement dated 3 December 2008) entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of the Rights Issue
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%" or "per cent."	percentage or per centum

TERMINATION OF THE UNDERWRITING AGREEMENT

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 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 United States of America) 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

If, at or prior to 4.00 p.m. on the Settlement Date:

1. 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

2. the Underwriter receives the 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

3. the Prospectus Documents when published, contains 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.

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 such right, the Rights Issue will not proceed.

Set out below is an indicative timetable for the implementation of the Rights Issue. The timetable is subject to change in accordance with the agreement between the Company and the Underwriter. The Company will notify the Shareholders on any changes to the expected timetable as and when appropriate.

Last day of dealings in Shares on a cum-rights basis	Wednesday, 17 December 2008
First day of dealings in Shares on an ex-rights basis	Thursday, 18 December 2008
Latest time for lodging transfers of Shares in order to qualify for Rights Issue	4:00 p.m., Friday, 19 December 2008
Register of members closes	Monday, 22 December 2008 to Wednesday, 24 December 2008 (both dates inclusive)
SGM	Wednesday, 24 December 2008
Record Date	Wednesday, 24 December 2008
Register of members re-opens	Monday, 29 December 2008
Despatch of Prospectus Documents	Monday, 29 December 2008
First day of dealings in nil-paid Rights Shares	Wednesday, 31 December 2008
Latest time for splitting of nil-paid Rights Shares	4:00 p.m. on Wednesday, 7 January 2009
Last day of dealings in nil-paid Rights Shares	Monday, 12 January 2009
Latest time for acceptance of the Rights Issue as well as application for excess Rights Shares and payment of consideration thereof	4:00 p.m. on Thursday, 15 January 2009
Latest time for Rights Issue and Underwriting Agreement to become unconditional	after 4:00 p.m. on Monday, 19 January 2009
Announcement of results of acceptance and excess applications of the Rights Issue	Tuesday, 20 January 2009
Despatch of refund cheques for wholly and partially unsuccessful excess applications	Wednesday, 21 January 2009

Despatch of certificates for fully-paid Rights Shares . . . . Wednesday, 21 January 2009

First day of dealings in fully-paid Rights Shares . . . . Friday, 23 January 2009

Dates or deadlines specified for events in this timetable for (or otherwise in relation to) the Rights Issue refer to Hong Kong local time and are indicative only and may be varied by agreement between the Company and the Underwriter.

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. An announcement will be made by the Company in such event.

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:
Mr. Kwong Jimmy Cheung Tim
(Chairman & Chief Executive Officer)
Ms. Lui Yuk Chu *(Deputy Chairman)*

Non-executive Director:
Mr. Tse Wing Chiu, Ricky

Independent Non-executive Directors:
Mr. Kan Ka Hon
Mr. Lau Sin Ming
Mr. 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:
7th Floor
Hong Kong Spinners Building, Phase 6
481-483 Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

8 December 2008

To the Shareholders

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE OF 667,499,000 RIGHTS SHARES OF HK$0.01 EACH AT HK$0.15 PER RIGHTS SHARE ON THE BASIS OF TEN RIGHTS SHARES FOR EVERY EXISTING SHARE HELD

INTRODUCTION

On 12 November 2008, the Company announced that it proposes to raise approximately HK$100 million before expenses by way of the rights issue of 667,499,000 Rights Shares at a subscription price of HK$0.15 per Rights Share on the basis of 10 Rights Shares for every existing Share held by the Qualifying Shareholders on the Record Date. The Rights Issue is not available to the Non-Qualifying Shareholders. The Company plans to use the net proceeds from the Rights Issue to finance the Huzhou Project and for general working capital of the Group.

* *For identification only*

As the Rights Issue will increase the issued share capital of the Company by more than 50%, pursuant to rule 7.19(6)(a) of the Listing Rules, the Rights Issue is subject to approval from Independent Shareholders at the SGM. The Rights Issue is also conditional upon the approval of the Undertaking by shareholders of Easyknit International at a special general meeting of Easyknit International.

The Independent Board Committee, comprising Mr. Kan Ka Hon, Mr. Lau Sin Ming and Mr. Foo Tak Ching (being the independent non-executive Directors and have no material interest in the Rights Issue), has been established to advise the Independent Shareholders in respect of the Rights Issue. In accordance with the Listing Rules, Landmark Profits and its associates will abstain from voting on the resolution(s) to approve the Rights Issue at the SGM. Menlo Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Rights Issue are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote.

The purpose of this circular is to provide you with, among others, (i) details of the Rights Issue; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders on the Rights Issue; (iii) the recommendation from Menlo Capital to the Independent Board Committee and the Independent Shareholders on the Rights Issue; and iv) the notice of the SGM.

TERMS OF THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue	:	10 Rights Shares for every existing Share held on the Record Date
Number of Shares in issue	:	66,749,900 Shares as at the Latest Practicable Date
Number of Rights Shares	:	667,499,000 Rights Shares
Subscription price per Rights Share	:	HK$0.15

The aggregate number of Rights Shares to be issued represents 10 times of the Company's existing issued share capital and 90.9% of the Company's enlarged issued share capital of the Company immediately following the completion of the Rights Issue.

Share option scheme

As at the Latest Practicable Date, the Company does not have any share options outstanding under any 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.

Convertible note

The Company issued a convertible note with a principal amount of HK$37,650,000 to a third party as disclosed in its announcements dated 3 and 12 March 2008. The initial conversion price was HK$0.048 per share. During the period between April and June 2008, the whole of the principal amount of the convertible note of HK$37,650,000 had been converted at the initial conversion price. As a result of the conversion, a total of 784,375,000 shares (equivalent to 7,843,750 Shares upon the share consolidation becoming effective on 23 September 2008) were allotted and duly issued.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders. For the Non-Qualifying Shareholders, the Company will send copies of the Prospectus to them for their information only, but the Company will not send any PAL and EAF to the Non-Qualifying Shareholders.

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and must be a Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, owners must lodge any transfers of Shares (together with the relevant share certificates) with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Friday, 19 December 2008.

Subscription Price

The subscription price for the Rights Shares is HK$0.15 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, on application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for Rights Shares. The subscription price represents:

		HK$	*Premium/ (Discount) (%)*
Subscription price per Rights Share		**0.15**	
(a)	Closing price per Share quoted on the Stock Exchange on the Latest Practicable Date	0.37	(59.46)
(b)	Closing price per Share quoted on the Stock Exchange on the Last Trading Day	0.35	(57.14)

		HK$	Premium/ (Discount) (%)
(c)	Theoretical ex-rights price calculated based on the closing price per Share quoted on the Stock Exchange on the Last Trading Day	0.17	(11.76)
(d)	Average closing price per Share for the last 5 full trading days quoted on the Stock Exchange up to and including the Last Trading Day	0.32	(53.13)
(e)	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	0.31	(51.61)
(f)	Net asset value per Share based on the unaudited net asset value of the Group of approximately HK$289,225,000 as at 30 September 2008 as stated in the interim report of the Company for the six months ended 30 September 2008 and 66,749,900 Shares in issue as at the Latest Practicable Date	4.33	(96.54)

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the recent market prices of the Shares. The Directors consider the terms of the Rights Issue, including the Subscription Price, the relevant discounts and the underwriting commission as further discussed below, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Basis of provisional allotment

The basis of the provisional allotment shall be 10 Rights Shares for every existing Share held by a Qualifying Shareholder on the Record Date. Acceptances of all or any part of a Qualifying Shareholder's provisional allotment can be made only by completing the PAL and lodging the same with a remittance for the Rights Shares being accepted.

Share certificates and refund cheques for Rights Issue

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 Wednesday, 21 January 2009 to those who have accepted or (where applicable) applied for, and paid for the Rights Shares, by ordinary post at their own risk.

Refund cheques in respect of wholly or partly unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Wednesday, 21 January 2009 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 dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares

Fractions of Rights Shares

Fractional entitlements, if any, for the nil-paid Rights Shares will not be issued but will be aggregated and sold, if a premium (net of expenses) can be obtained, for the benefit of the Company.

Rights Shareholders with registered addresses outside Hong Kong

Based on the register of members of the Company as at the Latest Practicable Date, there were 2 Shareholders with registered addresses in Malaysia.

Based on a legal opinion obtained from the Company's legal advisers in Malaysia, the offering of the Rights Share to the Overseas Shareholders in Malaysia is not prohibited under applicable Malaysian laws but is subject to certain requirements involving the lodgement of this circular and the Prospectus Documents. Accordingly, this circular and the Prospectus Documents will be filed with the Securities Commission of Malaysia. In view of this, the Directors have decided to extend the Rights Issue to the Overseas Shareholders with registered addresses in Malaysia.

The Company will make arrangements 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 dealing 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 to the Non-Qualifying Shareholders in Hong Kong dollars pro rata to their respective shareholding as soon as possible. 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

Closure of register of members

The register of members of the Company will be closed from Monday, 22 December 2008 to Wednesday, 24 December 2008 (both dates inclusive). No transfers of Shares will be registered during this period.

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.

Applications for excess Rights Shares can be made only by completing an EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

(i) preference will be given to applications for topping-up odd lots holdings to whole lot holdings; and

(ii) subject to availability of the excess Rights Shares after allocation under principle (i) above, the excess Rights Shares will be allocated to the Qualifying Shareholders who have applied for excess application on a pro-rata basis based on the excess Rights Shares applied by them, with board lots allocation to be made on best effort's basis.

Investors with their Shares held by a nominee should note that the nominee is a single Shareholder according to the register of the members of the Company for the purposes of the Rights Issue. Accordingly, investors whose Shares are registered in the names of nominee should note that the aforesaid arrangement in relation to the top-up of odd lots for allocation of excess Rights Shares will not be extended to beneficial owners individually. Investors with their Shares held by a nominee are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

Investors whose Shares are held by nominee(s) and would like to have their names registered on the register of members of the Company, must lodge all necessary document with the branch share registrar of the Company in Hong Kong for completion of the relevant registration by 4:00 p.m. on Friday, 19 December 2008.

The latest time for acceptance of Rights Shares is expected to be at 4:00 p.m. on Thursday, 15 January 2009, or such later date or time as may be agreed between the Company and the Underwriter.

Listing and dealings

The Company will apply to the Listing Committee of the Stock Exchange for the listings of, and permission to deal in the Rights Shares, in both their nil-paid and fully-paid forms. It is expected that dealings in the Right Shares in their nil-paid form will take place from Wednesday, 31 December 2008 to Monday, 12 January 2009, both day inclusive.

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.

Subject to the granting of the listing 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.

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. Dealings in the Rights Shares in both their nil-paid and fully-paid forms, both in board lots of 2,000, 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 arrangement and Underwriting Agreement dated 5 November 2008

The Underwriter has agreed to fully underwrite the 455,871,130 Rights Shares (being all the 667,499,000 Rights Shares under the Rights Issue less the 211,627,870 Rights Shares to be issued to and accepted by Landmark Profits). To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Underwriter and its ultimate controlling shareholder are third parties independent of the Company and connected persons of the Company.

In the Underwriting Agreement, the Underwriter has undertaken to the Company that it will enter into sub-underwriting agreements such that none of the Underwriter and the sub-underwriter (together with parties acting in concert with them) will hold 30% or more of the issued share capital of the Company after completion of the Rights Issue and the Underwriters shall and should cause the sub-underwriters to procure independent placees to take up such number of Rights Shares as necessary to ensure compliance with the public float requirements under Rule 8.08 of the Listing Rules upon completion of the Rights Issue.

As at the date of the Announcement, the Underwriter has entered into sub-underwriting agreements such that each of the Underwriter and the sub-underwriters together with their respective parties acting in concert with any of them will not hold 30% or more of the issued share capital of the Company upon the completion of the Rights Issue.

As additional time is required to finalise this circular to include the unaudited interim results of the Company for the six months ended 30 September 2008, the despatch of this circular, was delayed from 3 December 2008 to 8 December 2008. Accordingly, a supplemental agreement was entered into between the Company and the Underwriter on 3 December 2008, pursuant to which, the references to the Acceptance Date, posting date (the date of despatch of the Prospectus Documents) and the Settlement Date in the Underwriting Agreement have been changed to 15 January 2009, 29 December 2008 and 19 January 2009 respectively.

Conditions of the Rights Issue

The Rights Issue is conditional upon, among other things, each of the following:

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;

5. the passing of a resolution by the Independent Shareholders approving the Rights Issue at a special general meeting of the Company in accordance with the Listing Rules; and

6. the passing of a resolution by shareholders of Easyknit International approving the undertaking given by Landmark Profits at a special general meeting of Easyknit International in accordance with the Listing Rules.

The Rights Issue will not proceed if the Underwriting Agreement is terminated.

In the event that the conditions of the Rights Issue are not fulfilled on or before the despatch of the Prospectus Documents (or that condition (1) above has not been satisfied on or before 4:00 p.m. on the Settlement Date), 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 and the Rights Issue will not proceed.

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 will or 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 21,162,787 Shares, representing approximately 31.7% of the total issued share capital of the Company. Pursuant to the Underwriting Agreement, Landmark Profits has signed the Undertaking in favour of the Company and the Underwriter pursuant to which it has conditionally undertaken, inter alia, that the Shares held by it on the date of the Undertaking will remain registered in its name as at 4:00 p.m. on the Record Date and that the Rights Shares to be provisionally allotted to it in respect of those Shares (representing 211,627,870 Rights Shares) will be taken up and paid for in full by it. The obligations of Landmark Profits under the Undertaking are conditional upon the approval by shareholders of Easyknit International at a special general meeting in accordance with the Listing Rules. If this condition is not fulfilled on or before 4:00 p.m. on the date of despatch of the Prospectus Documents (or such other date as the Company, the Underwriter and Landmark Profits may agree), all liabilities of Landmark Profits thereunder shall cease and determine and no party shall have any claims against the other for matters referred to in the Undertaking. The Undertaking will also lapse if the Rights Issue does not become unconditional in accordance with its terms.

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:

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 United States of America) 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

If, at or prior to 4:00 p.m. on the Settlement Date:

1. 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

2. 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

3. 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.

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 such right, the Rights Issue will not proceed.

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

The Shares will be dealt in on an ex-rights basis from Thursday, 18 December 2008. Dealings in the Rights Shares in the nil-paid form will take place from Wednesday, 31 December 2008 to Monday, 12 January 2009 (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 Shareholders or other persons dealing in 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 Wednesday, 31 December 2008 to Monday, 12 January 2009 (both dates inclusive) will bear the risk that the Rights Issue may not become unconditional and may not proceed. If in any doubt, investors are recommended to consult their professional advisers.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The estimated expenses of the Rights Issue amount to approximately HK$2 million and will be borne by the Company. The estimated net proceeds of the Rights Issue will be approximately HK$98 million.

As announced by the Company on 3 January, 2005, 30 November, 2005 and 20 October, 2008, the Company has made certain commitments towards the Huzhou Project. As at the Latest Practicable Date, the Company has made an aggregate investment of approximately RMB149 million in the Huzhou Project, which includes (a) the consideration for the acquisition of land for the Huzhou Project of approximately RMB39 million; (b) the cost of the construction of approximately RMB94 million; and (c) the payment of deposit of approximately RMB16 million to the Huzhou Government's contractor for the construction of the dyeing and bleaching facilities. The outstanding cost required in respect of the Huzhou Project is approximately RMB370 million. The Company intends to utilise (i) approximately HK$58 million of the net proceeds from the Rights Issue to finance the Huzhou Project in relation to the construction of the plant and the development of manufacturing operations; and (ii) the remaining net proceeds of approximately HK$40 million for general working capital of the Group. The Directors believe that the Huzhou Project will help the Group to increase its production capacity, enrich its product portfolio and enhance its income sources.

The Directors are of the view that it is prudent to finance the long-term growth of the Group by long-term funding in the form of equity, which will not incur additional interest expense. This is especially so in light of the current global credit crisis. The Directors believe that enhancing the Company's capital base by way of the Rights Issue which will allow the Qualifying Shareholders to have the opportunity to participate in the growth of the Company. The Rights Issue also allows the Company to broaden its Shareholders' base without diluting their corresponding shareholdings. 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.

SHAREHOLDING OF THE COMPANY

The shareholdings in the Company as at the Latest Practicable Date and prior to completion of the Rights Issue and upon completion of the Rights Issue are and will be as follows:

	Existing shareholding as at the Latest Practicable Date		After completion of 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)	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Landmark Profits	21,162,787	31.7	232,790,657	31.7	232,790,657	31.7
Public	45,587,113	68.3	501,458,243	68.3	45,587,113	6.2
Underwriter *(Note)*	—	—	—	—	455,871,130	62.1
Total	**66,749,900**	**100.0**	**734,248,900**	**100.0**	**734,248,900**	**100.0**

Note: The Underwriter has confirmed to the Company that it has entered into sub-underwriting agreements such that each of the Underwriter and the sub-underwriters together with their respective parties acting in concert with any of them will not hold 30% or more of the issued share capital of the Company upon the completion of the Rights Issue.

The Underwriter is a wholly-owned subsidiary of Get Nice Holdings Limited (stock code: 64) a listed company on the Stock Exchange. The Underwriter and its ultimate controlling shareholders are Independent Third Parties and are not parties acting in concert with Landmark Profits. The sub-underwriters and their ultimate beneficial owners are Independent Third Parties and are not parties acting in concert with Landmark Profits and the Underwriter.

In the event that the Underwriter and the sub-underwriters are required to take up the Rights Shares pursuant to their underwriting obligations, the Underwriter and the sub-underwriters shall procure independent placees to take up such number of Rights Shares as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with.

The Company will ensure the compliance with the public float requirements under Rule 8.08 of the Listing Rules upon compliance of the Rights Issue.

BUSINESS REVIEW AND PROSPECTS OF THE GROUP

The Group is principally engaged in the bleaching and dyeing, and knitting businesses.

Financial Results for the six months ended 30 September 2008

During the six months ended 30 September 2008, the Group recorded a turnover of approximately HK$23,875,000 (six months ended 30 September 2007: approximately HK$38,443,000), representing a decrease of approximately 37.9% from the same period last year. The cost of sales reduced by approximately 29.8% to approximately HK$25,769,000 (six months ended 30 September 2007: approximately HK$36,685,000). The Group recorded a gross loss of approximately HK$1,894,000 (six months ended 30 September 2007: gross profit of approximately HK$1,758,000). The gross loss was due to the increase in fixed production cost per unit as a result of decrease in sales and the increase in direct material costs during the period.

Loss attributable to shareholders increased approximately 19.0% to approximately HK$15,405,000 (six months ended 30 September 2007: approximately HK$12,947,000). Loss per share for the period was approximately HK cents 23.7 (six months ended 30 September 2007: approximately HK cents 33.0).

The Group's total operating expenses reduced to approximately HK$9,151,000 as compared to the same period last year of HK$15,665,000. The reduction of approximately 41.6% was mainly due to the provision made for legal and professional fees of approximately HK$8,201,000 in relation to the proposed merger with Wits Basin Precious Minerals Inc., a company incorporated in the United States of America, in the last corresponding period, but no such expenses was incurred for this period.

Finance costs increased approximately 1,117.9% to approximately HK$475,000 (six months ended 30 September 2007: approximately HK$39,000) principally by reason of the imputed interest on the 1% HK$37,650,000 convertible note due in March 2009.

Business Review

The bleaching and dyeing business continued to be the principal business of the Group and contributed to approximately 99.6% of the Group's total turnover during the period under review, whereas the knitting business accounted for the remaining approximately 0.4% of the total turnover of the Group.

Turnover for the bleaching and dyeing business reduced by approximately 38.1% to approximately HK$23,789,000 (six months ended 30 September 2007: approximately HK$38,411,000). This segment suffered a loss of approximately HK$9,454,000 (six months ended 30 September 2007: HK$692,000). The loss from this segment was due to the increase in fixed production cost per unit as a result of decrease in sales, the increase in direct material costs and the allowance of doubtful debts of approximately HK$4,232,000 made during the period.

The knitting business contributed approximately HK$86,000 to the Group's total turnover for the period under review (six months ended 30 September 2007: approximately HK$32,000). Taking into account the portion of inter-segment sales, the turnover derived from this business rose by 255.2% to approximately HK$16,328,000 (six months ended 30 September 2007: approximately HK$4,597,000). Loss from this segment increased to approximately HK$910,000 as compared to approximately HK$683,000 for the same period in last year. The increase was due to the rise in the price of cotton yarn, a raw material for knitting production, during the period under review.

Geographical analysis

During the period, the Group's turnover was mainly derived from sales made to customers in Hong Kong with manufacturing operations located in the PRC.

Development on the Huzhou Project

Construction work on the approximately 251 mu land granted and delivered for the garment manufacturing operation is substantially finished and is waiting for the government authority to grant the completion certificate.

The Huzhou Government has now indicated that it will be able to deliver the possession of the remaining two parcels of land with an aggregate area of approximately 381 mu for our proposed bleaching and dyeing, and knitting capabilities, as well as the land use right certificate for the bleaching and dyeing operation. Negotiation is still being carried out with the Huzhou Government for a revision of the contractual terms to the benefit of the Group as the previous delay was entirely due to the Huzhou Government.

Prospects

The Directors anticipate that the businesses of the Group will feel the impact of a declining market. Facing with present worldwide adverse financial condition, the Group will focus in implementing more effective control in production cost and improving its product quality in order to serve the customers which have continued to place orders with the Group.

As regard to the Huzhou Project, the Directors will continue to keep track of the transfer of the remaining two parcels of land to the Group. When the land is transferred to the Group, construction works will be started as quickly as possible. Notwithstanding the problems occasioned by the long delay on the part of the Huzhou Government in delivering the land to the Group and the downturn in the global economy, the Group is still minded to pursue the plans of the Huzhou Project but shall not excluded other options, which will be of benefit to the Group in the forthcoming negotiation with the Huzhou Government, especially after the property ownership certificate is granted and the existing garment manufacturing premises can be put to commercial use.

CAPITAL RAISING ACTIVITIES DURING PAST 12 MONTHS

The capital raising activities during the 12 months immediately preceding the Latest Practicable Date, are summarised below. Save for the below, the Company has not carried out any other capital raising activities during that period.

Date of announcement	Event	Net proceeds	Original intended use of the proceeds	Actual use of proceeds
6 December 2007	Rights issue on the basis of one rights share for every two shares held	HK$102.1 million	To finance the construction of the production plants of the Huzhou Project and for general working capital of the Group	HK$38 million has been utilised for the Huzhou Project
3 March 2008 and 12 March 2008	Convertible note at an initial conversion price of HK$0.048 with interest of 1% per annum payable semi-annually in arrears	HK$37.65 million	To finance the Huzhou Project	Such proceeds have not been utilised and currently being placed in a financial institution for interest income

THE SGM

A notice convening the SGM to be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 9:30 a.m. on Wednesday, 24 December 2008 (or as soon thereafter as the special general meeting of Easyknit International Holdings Limited to be held at 9:00 a.m. on the same day and at the same place shall have been concluded or adjourned) is set out on pages 112 to 114 of this circular for the purpose of considering and, if thought fit, approving the Rights Issue.

Landmark Profits, which is the controlling shareholder of the Company, holds approximately 31.7% of the issued share capital of the Company as at the Latest Practicable Date. In accordance with the Listing Rules, Landmark Profits and its associates will abstain from voting on the resolution(s) to approve the Rights Issue at the SGM. The Independent Board Committee, comprising Mr. Kan Ka Hon, Mr. Lau Sin Ming and Mr. Foo Tak Ching (being the independent non-executive Directors and have no material interest in the Rights Issue), has been established to make recommendations to the Independent Shareholders in respect of voting on the resolution(s) to approve the Rights Issue at the SGM by way of poll.

A form of proxy for use at the SGM is enclosed. If you are not able to attend the SGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of the Company at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjourned thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned of it, if you so wish.

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.

PROCEDURES FOR DEMANDING A POLL

Pursuant to the bye-laws of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:-

(i) by the Chairman of the meeting; or

(ii) by at least three Shareholders present in person or by duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or

(iii) by any Shareholder or Shareholders present in person or by duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(iv) by any Shareholder or Shareholders present in person or by duly authorised corporate representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

If a poll is demanded as aforesaid, it shall (apart from the election of a chairman of a meeting of Shareholders or on any question of adjournment which shall be taken at the meeting and without adjournment) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was demanded, as the chairman presiding at the meeting of Shareholders directs. No notice need to be given of a poll not taken immediately. The result of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn, with the consent of the chairman of the meeting, at any time before the close of the meeting at which the poll was demanded or the taking hands of the poll, whichever is the earlier.

RECOMMENDATION

In relation to the Rights Issue, your attention is drawn to the letter from the Independent Board Committee on page 26 and the letter from the Menlo Capital, sets out on pages 28 to 44 of this circular. The Independent Board Committee, having taken into account the advice of Menlo Capital, consider that the terms of the Rights Issue are fair and reasonable and the proposed resolutions in relation to the Rights Issue are in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the aforesaid resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

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

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

Easyknit Enterprises Holdings Limited
永義實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code : 616)

8 December 2008

To the Independent Shareholders

Dear Sirs or Madam,

PROPOSED RIGHTS ISSUE
OF 667,499,000 RIGHTS SHARES
OF HK$0.01 EACH AT HK$0.15 PER RIGHTS SHARE
ON THE BASIS OF TEN RIGHTS SHARES
FOR EVERY EXISTING SHARE HELD

We refer to the circular dated 8 December 2008 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall bear the same meanings herein unless the context requires otherwise.

We have been appointed to constitute the Independent Board Committee and to advise the Independent Shareholders in respect of the Rights Issue. Menlo Capital Limited has been appointed as the independent financial adviser of the Company to advise us in this respect.

Your attention is drawn to the letter from the Board set out on pages 9 to 25 of the Circular, which sets out information relating to, inter alia, the Rights Issue. We also draw your attention to the letter from Menlo Capital as set out on pages 28 to 44 of the Circular, which contains its advice to us regarding the Rights Issue.

* *For identification only*

Having taken into account the principal factors and reasons considered by and the recommendation of Menlo Capital Limited, the Independent Board Committee considers the terms of the Rights Issue to be fair and reasonable in so far as the Independent Shareholders are concerned, and the Rights Issue is in the interests of the Company and the Shareholders as a whole. We therefore recommend you to vote in favour of the resolutions to be proposed at the SGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Independent Board Committee

Kan Ka Hon	**Lau Sin Ming**	**Foo Tak Ching**
Independent Non-Executive Director	*Independent Non-Executive Director*	*Independent Non-Executive Director*

The following is the text of a letter from Menlo Capital Limited in connection with the proposed Rights Issue which has been prepared for the purpose of inclusion in this circular:

Menlo Capital Limited
Room 1104, Wing On Centre
111 Connaught Road Central, Hong Kong

8 December 2008

To the Independent Board Committee and the Independent Shareholders of
Easyknit Enterprises Holdings Limited

Dear Sirs,

PROPOSED RIGHTS ISSUE
OF 667,499,000 RIGHTS SHARES
OF HK$0.01 EACH AT HK$0.15 PER RIGHTS SHARE
ON THE BASIS OF TEN RIGHTS SHARES
FOR EVERY EXISTING SHARE HELD

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders whether the Rights Issue is in the interests of the Group and the Shareholders as a whole and whether the terms of Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned, details of the Rights Issue are set out in the letter from the Board (the "Board Letter") contained in the circular of the Company dated 8 December 2008 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context of this letter otherwise requires.

The Company proposes to raise approximately HK$100 million before expenses by way of the rights issue of 667,499,000 Rights Shares at a subscription price of HK$0.15 per Rights Share on the basis of 10 Rights Shares for every existing Share held by the Qualifying Shareholders on the Record Date. The Company plans to use the net proceeds from the Rights Issue to finance the Huzhou Project and for general working capital of the Group. The Rights Issue is available to the Qualifying Shareholders.

As the Rights Issue will increase the issued share capital of the Company by more than 50%, pursuant to the Listing Rules, the Rights Issue will be subject to approval from Independent Shareholders at the SGM. As at the Latest Practicable Date, Easyknit International, through Landmark Profits, is interested in 21,162,787 Shares, representing approximately 31.7% of the total issued share capital of the Company. In accordance with the Listing Rules, Landmark Profits and its associates will abstain from voting on the resolution(s) to approve the Rights Issue at the SGM.

We have not considered the taxation implications on the Shareholders in relation to the subscription for, holding or disposal of the Rights Shares, since these are particular to their individual circumstances. It is emphasised that we will not accept responsibility for any tax effects on, or liabilities of any person resulting from the subscription for, holding or disposal of the Rights Shares. In particular, Shareholders subject to overseas or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our view and recommendation. We have no reason to suspect that any material information has been withheld by the Company or by the Directors. We have not, however, carried out any independent investigation into the business and affairs of the Company. We have taken all reasonable steps pursuant to rule 13.80 of the Listing Rules which include the following:

(a) obtaining all the information and documents relevant to an assessment of the fairness and reasonableness of the terms of the Rights Issue, including but not limited to, the Announcement, the Board Letter, the terms of the Rights Issue, the Underwriting Agreement and the annual report of the Company for the year ended 31 March 2008;

(b) researching the relevant market and other conditions and trends relevant to the pricing of the rights issues;

(c) reviewing the fairness, reasonableness and completeness of any assumptions or projections relevant to the Rights Issue, the performance and financial situation of the Company as well as the reasons and background of the Rights Issue;

(d) confirming that no third party expert provides any opinion or valuation is relevant to the Rights Issue; and

(e) reviewing and assessing the alternative ways of fund raising other than the Rights Issue and the reasons given by the management of the Company for rejecting other alternatives.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue, we have taken the following principal factors and reasons into consideration:

(I) Background

The Group is principally engaged in the bleaching and dyeing, and knitting businesses.

As announced by the Company on 3 January 2005, 30 November 2005 and 20 October 2008 respectively, the Company has made certain commitments towards the Huzhou Project. As at the Latest Practicable Date, the Company has made an aggregate investment of approximately RMB149 million in the Huzhou Project, which includes (a) the consideration for the acquisition of land for the Huzhou Project of approximately RMB39 million; (b) the cost of the construction of approximately RMB94 million; and (c) the payment of deposit of approximately RMB16 million to the Huzhou Government's contractor for the construction of the dyeing and bleaching facilities. The outstanding cost required in respect of the Huzhou Project is approximately RMB370 million.

The Company intends to utilise the net proceeds from the Rights Issue to finance the Huzhou Project in relation to the construction of the plant and the development of manufacturing operations and for general working capital of the Group. The Directors believe that the Huzhou Project will help the Group increases its production capacity, enrich its product portfolio and enhance its income sources.

Having consider the principal businesses of the Group, we are of the view that the intended utilization of the Rights Issue, for the construction of the dyeing and bleaching plant and the development of manufacturing operations and for general working capital of the Group, is in the ordinary course of business of the Group.

(II) Reasons for the Rights Issue

The estimated expenses of the Rights Issue amount to approximately HK$2 million and will be borne by the Company. The estimated net proceeds of the Rights Issue will be approximately HK$98 million.

The Directors are of the view that it is prudent to finance the long-term growth of the Group by long-term funding in the form of equity, which will not incur additional interest expense. This is especially so in light of the current global credit crisis. The Directors believe that enhancing the Company's capital base by way of the Rights Issue which will allow the Qualifying Shareholders to have the opportunity to participate in the growth of the Company. The Rights Issue also allows the Company to broaden its Shareholders' base without diluting their corresponding shareholdings. 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.

The Rights Issue is on a pro-rata basis. We are of the view that the Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company. The nil-paid Rights Shares will be traded on the Stock Exchange. The Qualifying Shareholders who do not take up their entitlements in full will have the opportunity to realise their nil-paid Rights Shares on the market, subject to market conditions. On this basis, we consider the Rights Issue is fair and reasonable to the Qualifying Shareholders as it gives them an opportunity to maintain their respective pro rata shareholdings in the Company and to continue to participate in the future development of the Group without increasing the financial burden of the Group through debt financing.

(III) **Use of proceeds of the Rights Issue**

The capital raising activities during the 12 months immediately preceding the Latest Practicable Date are summarised below. Save for the below, the Company has not carried out any other capital raising activities during that period.

Date of announcement	Event	Net proceeds	Original intended use of the proceeds	Actual use of proceeds
6 December 2007	Rights issue on the basis of one rights share for every two shares held	HK$102.1 million	To finance the construction of the production plants of the Huzhou Project and for general working capital of the Group	HK$38 million has been utilised for the Huzhou Project
3 March 2008 and 12 March 2008	Convertible note at an initial conversion price of HK$0.048 with interest of 1% per annum payable semi-annually in arrears	HK$37.65 million	To finance the Huzhou Project	Such proceeds have not been utilised and currently being placed in a financial institution for interest income

The outstanding cost required in respect of the Huzhou Project is approximately RMB370 million. The estimated expenses of the Rights Issue amount to approximately HK$2 million and will be borne by the Company. The estimated net proceeds of the Rights Issue will be approximately HK$98 million.

The Company intends to utilise (i) approximately HK$58 million of the net proceeds from the Rights Issue to finance the Huzhou Project in relation to the construction of the plant and the development of manufacturing operations; and (ii) the remaining net proceeds of approximately HK$40 million for general working capital of the Group. The Directors believe that the Huzhou Project will help the Group increases its production capacity, enrich its product portfolio and enhance its income sources.

The net proceeds from the Rights Issue will be utilised for both financing the construction of the plant and the development of manufacturing operations as well as for general working capital of the Group. Based on this, we consider that the Rights Issue can increase the production capacity, enrich the product portfolio and enhance the income sources of the Group. Accordingly, we are of the view that the Rights Issue is in the interests of the Group and the Shareholders as a whole.

(IV) **The major terms of the Rights Issue**

Issue statistics

Basis of the Rights Issue	:	10 Rights Shares for every existing Share held on the Record Date
Number of Shares in issue	:	66,749,900 Shares as at the Latest Practicable Date
Number of Rights Shares	:	667,499,000 Rights Shares
Subscription price per Rights Share	:	HK$0.15

Share option scheme

As at the Latest Practicable Date, the Company does not have any share options outstanding under any 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.

Convertible note

The Company issued a convertible note with a principle amount of HK$37,650,000 to a third party as disclosed in its announcements dated 3 and 12 March 2008 respectively. The initial conversion price was HK$0.048 per Share. During the period between April and June 2008, the whole of the principal amount of the convertible note of HK$37,650,000 had been converted at the initial conversion price. As a result of the conversion, a total of 784,375,000 Shares were allotted and duly issued.

Subscription Price

The subscription price for the Rights Shares is HK$0.15 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares or, where applicable, on application for excess Rights Shares under the Rights Issue. Such Subscription Price represents:

		HK$	Premium/ (Discount) *(%)*
	Subscription price per Rights Share	**0.15**	
(a)	Closing price per Share quoted on the Stock Exchange on the Latest Practicable Date	0.37	(59.46)
(b)	Closing price per Share quoted on the Stock Exchange on the Last Trading Day	0.35	(57.14)
(c)	Theoretical ex-rights price calculated based on the closing price per Share quoted on the Stock Exchange on the Last Trading Day	0.17	(11.76)
(d)	Average closing price per Share for the last 5 full trading days quoted on the Stock Exchange up to and including the Last Trading Day	0.32	(53.13)
(e)	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	0.31	(51.61
(f)	Net asset value per Share based on the unaudited net asset value of the Group of approximately HK$289,225,000 as at 30 September 2008 as stated in the interim report of the Company for the six months ended 30 September 2008 and 66,749,900 Shares in issue at the Latest Practicable Date	4.33	(96.54)

In order to form an opinion on whether the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned, we have reviewed, so far as we are aware, all the rights issues announced during the last 12 months prior to the Last Trading Day (the "Review Period") by the companies listed on the main board of the Stock Exchange. We noted that it is common for the listed companies to offer higher discount rates for the rights issues involving higher offer ratios. However, none of the rights issues' offer ratio is as heavy as the Company's offer ratio. Accordingly, we consider that it is appropriate to use all rights issues announced during the Review Period as the comparables (the "Comparables") to provide a reference for the reasonableness of the Subscription Price of the Rights Issue.

The pricing of a rights issue may vary under different stock market condition as well as for companies with different financial standing and business performance. The major terms of all the Comparables are summarised as below:

Company name (Stock code)	Date of Announcement	Rights shares for existing shares ("Offer Ratios")	(Discount) of subscription price to the closing price per Share on the last trading day (%)	(Discount) of subscription price to the theoretical ex-right price per share (%)	Premium/ (Discount) of subscription price to the net asset value price per share based on the latest accounts available (%)	Underwriting commission (%)
Willie International Holdings Limited (273)	15/11/2007	1 for 1	(62.07)	(45.0)	Not Available ("N/A")	2.5
The Wharf (Holdings) Limited (004)	28/11/2007	1 for 8	(26.02)	(23.81)	N/A	1.25
Freeman Corporation Limited (279)	4/12/2007	5 for 1	(82.86)	(44.62)	N/A	2.5
Forefront Group Limited (885)	4/12/2007	1 for 2	(45.95)	(36.17)	N/A	2.5
Compass Pacific Holdings Limited (1188)	5/12/2007	1 for 1	(58.3)	(41.2)	N/A	2.0
The Company	6/12/2007	1 for 2	(40.2)	(30.7)	30.0	1.0
Unity Investments Holdings Limited (913)	12/12/2007	5 for 1	(87.23)	(53.25)	N/A	2.5
Asia Standard International Group Limited (129)	9/1/2008	1 for 2	(35.7)	(27.1)	(68.9)	2.0
Cheuk Nang (Holdings) Limited (131)	11/1/2008	1 for 7	(17.28)	(15.41)	(56.56)	2.5
Harbour Centre Development Limited (051)	5/2/2008	1 for 2	(21.0)	(15.0)	N/A	1.25
eSun Holdings Limited (571)	7/3/2008	1 for 2	(29.18)	(21.63)	(51.55)	N/A
Shun Cheong Holdings Limited (650)	8/4/2008	3 for 2	(64.03)	(41.59)	4.07	2.0
Midas International Holdings Limited (1172)	29/4/2008	1 for 2	(37.5)	(28.57)	(71.6)	2.5
Hong Kong Chinese Limited (655)	17/5/2008	7 for 20	(32.0)	(22.0)	(71.0)	2.5
Lippo Limited (226)	17/5/2008	1 for 4	(28.0)	(21.0)	(65.0)	1.5

Company name (Stock code)	Date of Announcement	Rights shares for existing shares ("Offer Ratios")	(Discount) of subscription price to the closing price per Share on the last trading day	(Discount) of subscription price to the theoretical ex-right price per share	Premium/ (Discount) of subscription price to the net asset value price per share based on the latest accounts available	Under-writing commission
			(%)	*(%)*	*(%)*	*(%)*
Wing On Travel (Holdings) Limited (1189)	20/5/2008	4 for 1	(71.83)	(33.77)	N/A	2.5
Citic Resources Holdings Limited (1205)	30/5/2008	3 for 20	(27.77)	(25.06)	N/A	0
Sino Katalytics Investment Corporation (2324)	3/6/2008	1 for 2	(27.54)	(20.21)	(68.53)	2.5
ITC Properties Group Limited (199)	6/6/2008	3 for 1	(62.8)	(29.6)	(88.5)	2.5
Mascottee Holdings Limited (136)	13/6/2008	1 for 2	(52.38)	(42.31)	N/A	2.5
Green Global Resources Limited (061)	17/6/2008	1 for 1	(30.3)	(18.2)	N/A	2.5
Willie International Holdings Limited (273)	19/6/2008	5 for 2	(63.86)	(33.63)	N/A	2.5
UDL Holdings Limited (620)	1/08/2008	1 for 1	(10.26)	(5.41)	16.67	2.5
China Resources Logic Limited (1193)	21/8/2008	4 for 1	(14.5)	(3.4)	216.7	0
Hanny Holdings Limited (275)	12/09/2008	4 for 1	(85.07)	(53.27)	(98.4)	2.5
Climax International Company Limited (439)	12/09/2008	4 for 1	(86.81)	(56.83)	(88.57)	2.5
(Lowest discount)/Highest Premium			**(14.5)**	**(3.4)**	**216.7**	
(Highest discount)			**(87.23)**	**(56.83)**	**(98.4)**	
mean		**5 for 8**	**(46.17)**	**(30.34)**	**(32.94)**	**2.04**
median		**3 for 4**	**(38.85)**	**(29.09)**	**(66.77)**	**2.5**
The Company		**10 for 1**	**(57.14)**	**(11.76)**	**(96.54)**	**1.0**

Source: The Stock Exchange website, the respective announcements and circulars of the Comparables

As noted from the above table,

1. the Offer Ratios of Comparables ranged from the lowest of 1 for 8 to the highest of 5 for 1 (the "First Relevant Range"), with mean of approximately 5 for 8 and median of 3 for 4. The Offer Ratio of the Rights Issue of 10 for 1 falls far beyond the First Relevant Range;

2. the subscription prices to the closing prices on the last trading day prior to the dates of announcements of the Comparables ranged from a discount of approximately 14.5% to approximately 87.23% (the "Second Relevant Range"), with the mean and median at discounts of approximately 46.17% and 38.85% respectively. The discount of the Subscription Price to the closing price of the Shares on the Last Trading Day is approximately 57.14%, which is more than mean and median but falls within the Second Relevant Range of the Comparables;

3. the subscription prices to the theoretical ex-rights prices per share based on the last trading day prior to the dates of the announcements in relation to the Comparables ranged from a discount of approximately 3.4% to approximately 56.83% (the "Third Relevant Range"), with the mean and median at discounts of approximately 30.34% and approximately 29.09% respectively. The discount of the Subscription Price to the theoretical ex-rights price per Share of approximately 11.76%, based on the closing price of the Shares on the Last Trading Day, is less than the mean and the median and falls within the Third Relevant Range of the Comparables; and

4. the subscription prices to the net asset value per share based on the latest accounts available prior to the dates of the announcements in relation to the Comparables ranged from a premium of approximately 216.7% to a discount of approximately 98.4% (the "Fourth Relevant Range"), with the mean and median at discounts of approximately 32.94% and approximately 66.77% respectively. The discount of the Subscription Price to the net asset value price per Share of approximately 96.54% based on the latest accounts available prior to the Latest Practicable Date is more than the mean and the median but falls within the Fourth Relevant Range of the Comparables.

We note that (i) it is common to offer higher discount rates for rights issues with higher Offer Ratios to enhance the attractiveness of the rights issues to the shareholders as well as the underwriters; (ii) the Offer Ratio of the Rights Issue falls far beyond the First Relevant Range (iii) the discount of the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the Second Relevant Range of the Comparables; (iv) the discount of the Subscription Price to the theoretical ex-rights price per Share falls within the Third Relevant Range of the Comparables; and (v) the discount of the Subscription Price to the net asset value price per Share falls marginally within the Fourth Relevant Range of the Comparables

The effect of the Rights Issue on the shareholding interests of the Shareholders is set out under the section headed "Effect on the shareholding interests of the Shareholders" in this letter. We are of the view that the deep discount of the Subscription Price to the closing price of the Share on the Last Trading Day and the theoretical ex-right price of the Shares provides an opportunity for the Qualifying Shareholders to take up the Rights Shares at a more attractive price while providing the Company with the funding which in turn is in the interests of the Group and the Shareholders as a whole of concern.

The underwriting commission rates of the Comparables ranged from 0 to 2.5% (the "Fifth Relevant Range"), with the mean and median of approximately 2.04% and 2.5% respectively. The underwriting commission of the Right Issue, being 1.0%, is lower than the mean and equivalent to the median and falls within the Fifth Relevant Range of the Comparables. We consider that the underwriting commission in respect of the Rights Issue is in line with those of the Comparables and is fair and reasonable so far as the Group and the Shareholders are concerned.

There was a share consolidation of the Shares taken place on 23 September 2008. The following table sets out the adjusted monthly/period average daily closing price, the adjusted total number of Shares traded, the adjusted average daily number of Shares traded, the adjusted average daily number of Shares traded to the total number of Shares as at the Last Trading Day and the adjusted average daily turnover of the Shares traded on the Stock Exchange from 6 November 2007 to 5 November 2008 (the Last Trading Day):

Month/period	Adjusted average daily closing price of the month/period (HK$)	Adjusted monthly total no. of Shares traded ('million)	Adjusted average daily no. of Shares traded ('million)	Adjusted average daily no. of Shares traded to the total no. of Shares as at the Last Trading Day	Adjusted average daily turnover of Shares, based on the adjusted average daily closing price (HK$' million)
2007					
November *(Note 1)*	7.33	15.6	0.98	1.47%	7.18
December	5.83	7.4	0.45	0.67%	2.62
2008					
January	4.52	13.9	0.63	0.94%	2.85
February	3.40	30.1	1.77	2.65%	6.02
March	3.39	13.4	0.75	1.12%	2.54
April	3.40	14.0	0.67	1.00%	2.28
May	3.28	14.3	0.72	1.08%	2.36
June	2.71	5.5	0.28	0.42%	0.76
July	2.28	5.2	0.24	0.35%	0.55
August	1.41	6.2	0.33	0.49%	0.47
September	0.85	2.5	0.12	0.18%	0.10
October	0.39	2.9	0.14	0.21%	0.05
November *(Note 2)*	0.33	0.8	0.25	0.37%	0.08

Notes:

1. Period from 6 November 2007 to the end of November 2007.

2. Period from 1 November 2008 to 5 November 2008.

As shown in the above table, the average of the daily closing price of the Shares as quoted on the Stock Exchange in the 12 month-period before the Last Trading Day was in a continuous downward trend with only one exceptional month in April 2008 with a marginal rise of HK$0.01. The adjusted average daily trading volumes of the Shares in the 12 months before the Last Trading Day represents approximately 0.18% to approximately 2.65% of the total number of Shares as at the Last Trading Day. The adjusted average daily turnover of the Shares in the 12 months before the Last Trading Day, based on the adjusted average daily closing price, ranged from approximately HK$0.05 million to approximately HK$7.18 million. The very thin adjusted average daily turnovers of the Shares in the 5 month-period before the Last Trading Day ranged from approximately HK$0.05 million to approximately HK$0.76 million.

The proposed Rights Issue of raising fund of approximately HK$100 million before expenses represents approximately 259 times of the average daily turnover of the Shares in the 5 month-period before the Last Trading Day.

Given that (i) there was a continuous downward trend and relatively low trading volume of the Shares before the Last Trading Day; (ii) a relatively substantial amount of funding will be raised under the Rights Issue; (iii) the Rights Issue is a heavy call; (iv) the discount of the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the Second Relevant Range of the Comparables; (v) the discount of the Subscription Price to the theoretical ex-rights price per Share falls within the Third Relevant Range of the Comparables; (vi) the discount of the Subscription Price to the net asset value price per Share falls within the Fourth Relevant Range of the Comparables; (vii) the underwriting commission of the Right Issue falls within the Fifth Relevant Range of the Comparables and (viii) the Rights Issue will allow all the Qualifying Shareholders to maintain their proportionate interests in the Company, we are of the view the Subscription Price offered to all Qualifying Shareholders is fair and reasonable so far as the Shareholders are concerned.

(V) **Other terms of the Rights Issue and the underwriting arrangements**

The other terms of the Rights Issue, being set out under the section headed “PROPOSED RIGHTS ISSUE” in the Board Letter, include the detailed terms related to:

- basis of provisional allotments;
- status of the Rights Shares;
- fractions of Rights Shares;
- Share certificates and refund cheques for Rights Issue;
- Qualifying Shareholders;
- Non-Qualifying Shareholders;
- closure of register of members;

- application for excess Rights Shares;
- application for listing;
- conditions of the Rights Issue;

The Rights Issue will not proceed if the Underwriting Agreement is terminated.

UNDERWRITING AGREEMENT DATED 5 NOVEMBER 2008

The Underwriter has agreed to fully underwrite the 455,871,130 Rights Shares (being all the 667,499,000 Rights Shares under the Rights Issue less the 211,627,870 Rights Shares to be issued to and accepted by Landmark Profits). To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Underwriter and its ultimate controlling shareholder are third parties independent of the Company and connected persons of the Company.

In the Underwriting Agreement, the Underwriter has undertaken to the Company that it will enter into sub-underwriting agreements such that none of the Underwriter and the sub-underwriter (together with parties acting in concert with them) will hold 30% or more of the issued share capital of the Company after completion of the Rights Issue and will procure independent placees to take up such number of Rights Shares as recovery to ensure compliance with the public float requirements under Rule 8.08 of the Listing Rules upon completion of the Rights Issue.

As at the date of the Announcement, the Underwriter has confirmed to the Company that it has entered into sub-underwriting agreements such that each of the Underwriter and the sub-underwriters together with their respective parties acting in concert with any of them will not hold 30% or more of the issued share capital of the Company upon the completion of the Rights Issue.

Commission

The Company will pay the Underwriter an underwriting commission of 1.0% of the aggregate subscription price of the Rights Shares underwritten by it, out of which the Underwriter will or may pay any 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 21,162,787 Shares, representing approximately 31.7% of the total issued share capital of the Company. Pursuant to the Underwriting Agreement, Landmark Profits has signed the Undertaking in favour of the Company and the Underwriter pursuant to which it has conditionally undertaken, inter alia, that the Shares held by it on the date of the Undertaking will remain registered in its name as at 4.00 p.m. on the Record Date and that the Rights Shares to be provisionally allotted to it in respect of those Shares (representing 211,627,870 Rights Shares) will be taken up and paid for in full by it. The obligations of Landmark Profits under the Undertaking are conditional upon the approval by shareholders of Easyknit International at the SGM in accordance with the Listing Rules. If this condition is not fulfilled on or before 4:00 p.m. on the date of despatch of the Prospectus Documents (or such other date as the Company, the Underwriter and Landmark Profits may agree), all liabilities of Landmark Profits thereunder shall cease and determine and no party shall have any claims against the other for matters referred to in the Undertaking. The Undertaking will also lapse if the Rights Issue does not become unconditional in accordance with its terms. 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 United States of America) 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.

Other than the Subscription Price and the underwriting commission of the Rights Issue, we have also reviewed the other terms of the Rights Issue together with the terms of the Underwriting Agreement as listed above, we are of the view that the terms of the Rights Issue together with the terms of the Underwriting Agreement are on normal commercial basis with no extraordinary terms being noted.

(VI) **Effect on shareholding interests of the Shareholders**

The shareholdings in the Company before the Rights Issue and immediately after completion of the Rights Issue are and will be as follows:

	Existing shareholding		**After completion of 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)**	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Landmark Profits	21,162,787	31.7	232,790,657	31.7	232,790,657	31.7
Public	45,587,113	68.3	501,458,243	68.3	45,587,113	6.2
Underwriter *(Note)*	—	—	—	—	455,871,130	62.1
Total	**66,749,900**	**100.0**	**734,248,900**	**100.0**	**734,248,900**	**100.0**

Note: The Underwriter has confirmed to the Company that it has entered into sub-underwriting agreements such that each of the Underwriter and the sub-underwriters together with their respective parties acting in concert with any of them will not hold 30% or more of the issued share capital of the Company upon the completion of the Rights Issue.

Immediately after completion of the Rights Issue (assuming no Rights Shares are taken up by the Qualifying Shareholders other than those Rights Shares taken up by Landmark Profits), the shareholding of the existing Independent Shareholders will be substantially diluted from 68.3% to 6.2%. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue.

In the Underwriting Agreement, the Underwriter has undertaken to the Company that it will enter into sub-underwriting agreements such that none of the Underwriter and the sub-underwriter (together with parties acting in concert with them) will hold 30% or more of the issued share capital of the Company after completion of the Rights Issue and will procure independent placees to take up such number of Rights Shares as recovery to ensure compliance with the public float requirements under Rule 8.08 of the Listing Rules upon completion of the Rights Issue.

As at the date of the Announcement, the Underwriter has entered into sub-underwriting agreements such that each of the Underwriter and the sub-underwriters together with their respective parties acting in concert with any of them will not hold 30% or more of the issued share capital of the Company upon the completion of the Rights Issue.

Taking into consideration the foregoing, we consider that as the Qualifying Shareholders can choose to participate in the Rights Issue or, if they are unwilling or unable to do so, to dispose of their entitlements nil-paid in the market at a premium if one can be obtained, the Rights Issue is an equitable method to raise new equity capital for the Company which is fair and reasonable so far as the Independent Shareholders are concerned.

(VII) **Financial effects of the Rights Issue**

(a) *Net assets*

The effect on the unaudited pro forma consolidated net assets of the Group immediately after completion of the Rights Issue is set out in Appendix II in the Circular.

The gross proceeds from the Rights Issue will be approximately HK$100 million. The estimated net proceeds from the Rights Issue will be approximately HK$98 million. The Company intends to utilise (i) approximately HK$58 million of the net proceeds from the Rights Issue to finance the Huzhou Project in relation to the construction of the plant and the development of manufacturing operations; and (ii) the remaining net proceeds of approximately HK$40 million for general working capital of the Group. Accordingly, the net assets of the Company will be improved by HK$98 million.

We are of the view that the improvement of the net assets of the Company after the Rights Issue is in the interests of the Group and the Shareholders as a whole.

(b) *Gearing ratio and working capital*

Based on the audited consolidated accounts of the Company as at 31 March 2008, the gearing ratio (calculated as the total liabilities of approximately HK$66.4 million to shareholders' equity of approximately HK$267.0 million) of the Group was approximately 24.9%. Accordingly, the gearing ratio will be reduced by the net proceeds of approximately HK$98 million to be generated from the Rights Issue.

The Rights Issue can raise a net amount of capital of approximately HK$98 million. The cash position and the working capital of the Group immediately after the Rights Issue will be increased by the same amount. The net proceeds of approximately HK$40 million will be retained as general working capital of the Group after financing the Huzhou Project in relation to the construction of the plant and the development of manufacturing operations.

We are of the view that the gearing ratio, cash position and the working capital of the Group to be improved after the Rights Issue is in the interests of the Group and the Shareholders as a whole.

RECOMMENDATION

We have taken into consideration of the above principal factors and reasons, in particular:

- the Company has conducted two fund raising activities in the twelve months before the Latest Practicable Date raising approximately HK$139.7 million for the construction of the production plants of the Huzhou Project and for general working capital of the Group;
- the Rights Issue is in the ordinary course of business of the Group;
- the Rights Issue is on normal commercial terms;
- the Subscription Price offered to all Qualifying Shareholders is fair and reasonable so far as the Independent Shareholders are concerned;
- the Rights Issue (upon exercise) would enlarge the capital base of the Company;
- the Rights Issue (upon exercise) can improve the net assets of the Company, the gearing ratio and the working capital position of the Group; and
- the Rights Issue would be a preferred method of equity financing as it will allow all the Qualifying Shareholders to maintain their proportionate interests in the Company and to participate in the future growth and development of the Group.

Accordingly, we are of the view that the Rights Issue is in the interests of the Group and the Shareholders as a whole and that the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Menlo Capital Limited

Michael Leung
Executive Director

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. 7, Braga Circuit Kowloon 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, No.11 La Serene 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 Conduit Road Hong Kong

Executive Directors

Mr. Kwong Jimmy Cheung Tim (Chairman and Chief Executive Officer)

Mr. Kwong, aged 65, is an executive director, Chairman, Chief Executive Officer and authorised representative of the Company and a member and Chairman of the Executive Committee of the Board. He is also an executive director, President, Chief Executive Officer and authorised representative, and a member and Chairman of the Executive Committee of the board of directors of Easyknit International. Mr. Kwong was 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. He serves as director of various subsidiaries of the Company and Easyknit International. Mr. Kwong was appointed to the Board as an independent non-executive director in April 2003, and was subsequently re-designated as an executive director in April 2007. On 18 December 2007, Mr. Kwong was appointed as Chairman and Chief Executive Officer.

Ms. Lui Yuk Chu (Deputy Chairman)

Ms. Lui, aged 51, is an executive director and Deputy Chairman of the Company and a member of the Executive Committee of the Board. She is also an executive director and Vice President, and a member of the Executive Committee of the board of directors of Easyknit International. Ms. Lui has been involved in the textiles industry for 30 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 was appointed to the Board as an executive director in March 2003 and was appointed as Deputy Chairman on 20 January 2006.

Non-executive Director

Mr. Tse Wing Chiu, Ricky

Mr. Tse, aged 50, is a non-executive director of the Company. He is also a non-executive director of Easyknit International. Mr. Tse obtained a Master's Degree in Business Administration from Adam Smith University of America in the United States in 1996. He has more than 30 years of experience in garment manufacturing and merchandising. Mr. Tse was appointed to the Board as an executive director and Vice Chairman in November 2005, and was subsequently re-designated from Vice Chairman to Chairman and appointed as Chief Executive Officer in January 2006. On 18 December 2007, Mr. Tse was re-designated from an executive director to a non-executive director of the Company and resigned as Chairman and Chief Executive Officer.

Independent Non-executive Directors

Mr. Kan Ka Hon

Mr. Kan, aged 57, 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 also an independent non-executive director of Victory City International Holdings Limited. Mr. Kan was appointed to the Board in April 2003.

Mr. Lau Sin Ming

Mr. Lau, aged 47, 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 26 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.

Mr. Foo Tak Ching

Mr. Foo, aged 74, 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 practicing 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	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	*On Hong Kong law:* Richards Butler in association with Reed Smith LLP 20th Floor Alexandra House 16-20 Chater Road Hong Kong *On Bermuda law:* Appleby 8th Floor, Bank of America Tower 12 Harcourt Road, Central Hong Kong
Auditor	Deloitte Touche Tohmatsu *Certified Public Accountants* 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

2. SHARE CAPITAL

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:

Authorised:		
20,000,000,000	Shares	HK$200,000,000
Issued and fully-paid:		
66,749,900	Shares in issue	HK$667,499
667,499,000	Shares to be issued pursuant to the Rights Issue	HK$6,674,990
734,248,900	Shares in issue immediately following the Rights Issue	HK$7,342,489

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

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

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. UNAUDITED INTERIM RESULTS OF THE GROUP

Set out below are the extracts from pages 1 to 13 of the unaudited interim report for the six months ended 30 September 2008 of the Group with comparative figures. These unaudited condensed consolidated financial statements have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2008

		Six months ended 30 September	
	NOTES	**2008**	**2007**
		HK$'000	*HK$'000*
		(Unaudited)	*(Unaudited)*
Turnover	3	23,875	38,443
Cost of sales and services		(25,769)	(36,685)
Gross (loss) profit		(1,894)	1,758
Other income		1,143	999
Distribution costs		(301)	(213)
Administrative expenses		(7,614)	(7,251)
Other expenses		(1,236)	(8,201)
Allowance for doubtful debts		(4,232)	—
Finance costs		(475)	(39)
Loss before taxation	4	(14,609)	(12,947)
Taxation	5	(796)	—
Loss for the period		(15,405)	(12,947)
Basic loss per share	6	HK cents (23.7)	HK cents (33.0)

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 September 2008

	NOTES	30 September 2008 HK$'000 (Unaudited)	31 March 2008 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	123,400	102,831
Prepaid lease payments	8	41,230	40,667
Deposits for acquisition of property, plant and equipment		18,161	17,725
		182,791	161,223
Current assets			
Inventories		9,478	5,818
Trade and other receivables	9	25,969	25,698
Prepaid lease payments	8	878	857
Pledged deposit		10,000	—
Bank balances and cash		95,457	139,753
		141,782	172,126
Current liabilities			
Trade and other payables	10	24,279	26,000
Bills payable	11	5,335	1,818
Convertible note	12	—	33,750
Tax payable		5,734	4,816
		35,348	66,384
Net current assets		106,434	105,742
Net assets		289,225	266,965
Capital and reserves			
Share capital	13	667	58,906
Reserves		288,558	208,059
		289,225	266,965

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2008

	Share capital	Share premium	Convertible note equity reserve	Capital reserve	Contributed surplus	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2008 (audited)	58,906	246,094	4,128	53,194	714	17,711	(113,782)	266,965
Exchange differences arising on translation of foreign operations	—	—	—	—	—	3,501	—	3,501
Loss for the period	—	—	—	—	—	—	(15,405)	(15,405)
Total recognised income and expense for the period	—	—	—	—	—	3,501	(15,405)	(11,904)
On conversion of convertible note (see note 13(b))	7,843	30,449	(4,128)	—	—	—	—	34,164
Reduction of capital upon capital reorganisation (see note 13(d))	(66,082)	—	—	—	—	—	66,082	—
At 30 September 2008 (unaudited)	667	276,543	—	53,194	714	21,212	(63,105)	289,225
At 1 April 2007 (audited)	39,271	164,288	—	53,194	714	7,138	(95,971)	168,634
Exchange differences arising on translation of foreign operations	—	—	—	—	—	2,959	—	2,959
Loss for the period	—	—	—	—	—	—	(12,947)	(12,947)
Total recognised income and expense for the period	—	—	—	—	—	2,959	(12,947)	(9,988)
At 30 September 2007 (unaudited)	39,271	164,288	—	53,194	714	10,097	(108,918)	158,646

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2008

	Six months ended 30 September	
	2008	**2007**
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Net cash (used in) from operating activities	(15,106)	11,295
Net cash used in investing activities		
Purchase of property, plant and equipment	(20,354)	(21,421)
Increase in pledged deposit	(10,000)	—
Prepaid lease payment	—	(6,361)
Other investing cash flows	1,119	213
	(29,235)	(27,569)
Net cash used in financing activities		
Bank loans raised	—	2,043
Repayment of bank loans	—	(8,081)
Other financing cash flows	(61)	(39)
	(61)	(6,077)
Net decrease in cash and cash equivalents	(44,402)	(22,351)
Cash and cash equivalents at beginning of the period	139,753	29,392
Effect of foreign exchange rate changes	106	439
Cash and cash equivalents at end of the period, represented by bank balances and cash	95,457	7,480

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2008

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2008.

In the current interim period, the Group has applied, for the first time, the following new amendments and interpretations ("new Amendments and Interpretations") issued by the HKICPA which are effective for the Group's financial period beginning 1 April 2008.

HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) - INT 12	Service concession arrangements
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of these new Amendments and Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

3. SEGMENT INFORMATION

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 basis on which the Group reports its primary segment information.

For the six months ended 30 September 2008

	Bleaching and dyeing	**Knitting**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External	23,789	86	—	23,875
Inter-segment (note)	—	16,242	(16,242)	—
Total	23,789	16,328	(16,242)	23,875
Segment results	(9,454)	(910)	—	(10,364)
Interest income				1,119
Unallocated corporate expenses				(4,889)
Finance costs				(475)
Loss before taxation				(14,609)
Taxation				(796)
Loss for the period				(15,405)

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

For the six months ended 30 September 2007

	Bleaching and dyeing	Knitting	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External	38,411	32	—	38,443
Inter-segment (note)	—	4,565	(4,565)	—
Total	38,411	4,597	(4,565)	38,443
Segment results	(692)	(683)	—	(1,375)
Interest income				213
Unallocated corporate expenses				(11,746)
Finance costs				(39)
Loss for the period				(12,947)

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

4. LOSS BEFORE TAXATION

	Six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging:		
Depreciation	1,842	1,786
Professional fees for a possible merger (note)	—	8,201
Total staff costs (including directors' emoluments)	4,776	5,736

Note: The Company included in note 27 of the Group's annual financial statements for the year ended 31 March 2007, details of, among others, a possible merger involving Wits Basin Precious Minerals Inc. ("Wits Basin") resulting from a non-binding letter of intent dated 29 November 2006 and two subsequent non-binding heads of agreements. Wits Basin is a company incorporated in Minnesota, the United States of America whose principal business was the exploration and development of minerals in Mexico, Colorado and South Africa.

There were subsequent litigations between the Group and Wits Basin. On 19 December 2007, the Group entered into a settlement agreement and general release (the "Settlement and Release") to terminate the possible merger and litigations with Wits Basin. Details of these are included in note 29 of the Group's annual financial statements for the year ended 31 March 2008.

Professional fees incurred during the six months ended 30 September 2007 in relation to the possible merger and the Settlement and Release amounted to HK$8,201,000, which have been charged to the consolidated income statement during that period and included in other expenses.

5. TAXATION

	Six months ended 30 September	
	2008	**2007**
	HK$'000	*HK$'000*
The charge comprises:		
PRC enterprise income tax		
- current period	796	—

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for both periods.

Pursuant to Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises in Mainland China (the "PRC"), the Company's subsidiaries in the PRC are entitled to preferential tax treatment with full exemption from the 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 PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate to 25% for the Company's PRC subsidiaries since 1 January 2008.

6. BASIC LOSS PER SHARE

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

	Six months ended 30 September	
	2008	**2007**
	HK$'000	*HK$'000*
Loss for the purposes of basic loss per share	(15,405)	(12,947)
	Number of shares	
Weighted average number of shares for the purposes of basic loss per share	65,011,144	39,270,752

The denominator for the purposes of calculating basic loss per share for the six months ended 30 September 2007 has been adjusted to reflect the consolidation of shares on the basis that 100 shares were consolidated into one share in September 2008.

7. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group spent HK$20,354,000 on acquisition of property, plant and equipment (the prior period: HK$21,421,000).

8. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise land use rights situated in the PRC held under medium-term leases. At 30 September 2008, the relevant PRC authority has not vacated certain land of carrying amount of HK$37,543,000 (31.3.2008: HK$37,020,000) for the use by the Group, HK$21,250,000 (31.3.2008: HK$20,954,000) of which have yet to be granted the land use rights certificates.

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of up to 60 days to its customers. The aged analysis of trade receivables at the balance sheet date is as follows:

	30 September 2008	**31 March 2008**
	HK$'000	*HK$'000*
0 - 60 days	10,640	7,616
61 - 90 days	3,685	5,536
Over 90 days	9,559	11,715
Trade receivables	23,884	24,867
Prepayments	334	620
Other receivables	1,751	211
	25,969	25,698

10. TRADE AND OTHER PAYABLES

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

	30 September 2008	**31 March 2008**
	HK$'000	*HK$'000*
0 - 60 days	5,245	3,016
61 - 90 days	163	1,206
Over 90 days	27	598
Trade payables	5,435	4,820
Accruals	18,087	20,090
Other payables	757	1,090
	24,279	26,000

11. BILLS PAYABLE

At the balance sheet date, all bills payable were aged within 120 days.

12. CONVERTIBLE NOTE

Convertible note containing liability and equity components

In March 2008, the Company issued to an independent third party a convertible note at its par value of HK$37,650,000. The convertible note is denominated in Hong Kong dollars. The note entitles the holder to convert it into ordinary shares of the Company at any time between the date of issue of the note on 12 March 2008 and its settlement date on 11 March 2009 at a conversion price of HK$0.048 per conversion share (subject to adjustment). Assuming full conversion of the convertible note at a conversion price of HK$0.048 at the date of issue of the note, the convertible note would have been convertible into 784,375,000 new ordinary shares of HK$0.01 each in the share capital of the Company. The converted shares would be allotted and issued under the general mandate granted to the directors of the Company at the 2007 annual general meeting of the Company held on 16 August 2007. If the convertible note has not been converted, it would be redeemed on 11 March 2009 at par. Interest of 1% per annum will be paid semi-annually in arrears up until the settlement date.

The convertible note contains two components, liability and equity elements. The equity component is presented in equity heading “convertible note equity reserve”. The effective interest rate of the liability component is 13.08% per annum.

During April to June 2008, the convertible note was converted into 784,375,000 new ordinary shares of HK$0.01 each of the Company at the conversion price of HK$0.048 per conversion share.

The movement of the liability component of the convertible note during the six months ended 30 September 2008 is set out below:

	HK$'000
Carrying amount at 1 April 2008	33,750
Interest charge	475
Interest paid	(61)
On conversion during the period	(34,164)
Carrying amount at 30 September 2008	—

13. SHARE CAPITAL

	Notes	**Nominal value per share** *HK$*	**Number of shares**	**Amount** *HK$'000*
Authorised:				
At 1 April 2007 and 31 March 2008		0.01	20,000,000,000	200,000
Reduction of share capital	(d)(ii)		—	(198,000)
		0.0001	20,000,000,000	2,000
Consolidation of shares	(d)(iii)		(19,800,000,000)	—
		0.01	200,000,000	2,000
Increase	(d)(iv)	0.01	19,800,000,000	198,000
At 30 September 2008		0.01	20,000,000,000	200,000
Issued and fully paid:				
At 1 April 2007		0.01	3,927,075,240	39,271
Rights issue of share	(a)	0.01	1,963,537,620	19,635
At 31 March 2008		0.01	5,890,612,860	58,906
On conversion of convertible note	(b)	0.01	784,375,000	7,843
		0.01	6,674,987,860	66,749
Exercise of share options	(c)	0.01	2,140	—
			6,674,990,000	66,749
Reduction of share capital	(d)(i)		—	(66,082)
		0.0001	6,674,990,000	667
Consolidation of shares	(d)(iii)		(6,608,240,100)	—
At 30 September 2008		0.01	66,749,900	667

Notes:

(a) On 21 January 2008, the Company allotted 1,963,537,620 rights shares of HK$0.01 each at the subscription price of HK$0.052 per rights share on the basis of one rights share for every two existing ordinary shares held. The Company raised HK$101,441,000 (net of expenses) with the intention to finance the development of manufacturing operations in the PRC and for general working capital use.

(b) On 17 April 2008, 30 April 2008 and 12 June 2008, the holder of the Group's convertible note exercised his conversion right and converted the convertible note at its par value of HK$37,650,000 into 784,375,000 new ordinary shares of HK$0.01 each in the share capital of the Company at a conversion price of HK$0.048 per conversion share.

(c) On 18 August 2008, an option to subscribe for a total of 2,140 ordinary shares of HK$0.01 each of the Company at a subscription price of HK$0.0162 per share was granted to an employee pursuant to the Company's share option scheme adopted on 6 June 2002. The share options are exercisable within 14 days after the date of acceptance. The employee accepted the offer on 19 August 2008 for a nominal consideration of HK$1 and exercised the share options in full also on 19 August 2008.

In the opinion of the directors, the estimated fair value of the share options granted on 18 August 2008 was insignificant.

(d) As announced by the Company on 14 August 2008, the Company proposed to effect (i) reduction of the nominal value of each issued share from HK$0.01 each to HK$0.0001 each by cancelling HK$0.0099 paid up share capital for each share in issue ("Issued Capital Reduction"); (ii) reduction of the nominal value of all shares in the authorised share capital of the Company from HK$0.01 each to HK$0.0001 each, resulting in the reduction of the authorised share capital from HK$200,000,000 to HK$2,000,000 divided into 20,000,000,000 shares of HK$0.0001 each; (iii) a share consolidation pursuant to which every one hundred issued and unissued then existing shares of HK$0.0001 each were consolidated into one consolidated share of HK$0.01 each; (iv) increase of the authorised share capital from HK$2,000,000 divided into 200,000,000 consolidated shares of HK$0.01 each to HK$200,000,000 divided into 20,000,000,000 consolidated shares of HK$0.01 each by the creation of 19,800,000,000 new consolidated shares; and (v) transfer of credit arising from the Issued Capital Reduction with the amount of HK$66,082,401 to set off against part of the accumulated losses of the Company. The above are collectively referred to the "Capital Reorganisation". Details of the Capital Reorganisation are set out, inter alia, in the circular of the Company dated 29 August 2008. A special resolution approving the Capital Reorganisation was passed at the special general meeting of the Company held on 22 September 2008. The Capital Reorganisation became effective on 23 September 2008.

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

14. RELATED PARTY TRANSACTIONS

(a) During the period, the Group received administrative services from wholly-owned subsidiaries of Easyknit International Holdings Limited ("Easyknit International") and paid service fee as follows:

	Six months ended 30 September	
	2008	**2007**
	HK$'000	*HK$'000*
Grand Modern Investment Limited	—	80
Easyknit Global Company Limited	120	40
	120	120

Ms. Lui Yuk Chu, a director of the Company, has beneficial interests in Easyknit International and the Company is an associate of Easyknit International.

During the six months ended 30 September 2007, the Group also purchased a motor vehicle amounting to HK$576,000 from Grand Modern Investment Limited.

(b) **Compensation of key management personnel**

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

	Six months ended 30 September 2008	Six months ended 30 September 2007
	HK$'000	*HK$'000*
Short-term employee benefits	1,545	2,010

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

15. CAPITAL COMMITMENTS

	30 September 2008	31 March 2008
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment		
- Contracted for but not provided	26,101	45,654
- Authorised but not contracted for	394,524	384,636
	420,625	430,290

The capital expenditure shown above is principally for the purpose of development of manufacturing operations in the PRC.

16. POST BALANCE SHEET EVENT

As announced by the Company on 12 November 2008, the Company proposed a rights issue of 667,499,000 rights shares of HK$0.01 each at a subscription price of HK$0.15 per rights share on the basis of ten rights shares for every existing share of the Company held.

2. FINANCIAL SUMMARY OF THE GROUP

The following financial summary has been extracted from the audited consolidated financial statements of the Group for the three years ended 31 March 2008 as published in the 07/08 and 06/07 annual reports of the Company. No qualified opinions were issued by the Company's auditor for any of the three years ended 31 March 2008.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March

	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*
Turnover	74,923	75,964	58,039
Cost of sales and services	(65,721)	(74,717)	(53,573)
Gross profit	9,202	1,247	4,466
Other income	1,742	2,667	1,441
Other expenses	(10,702)	(608)	(1,416)
Distribution costs	(384)	(424)	(536)
Administrative expenses	(15,063)	(15,084)	(10,533)
Write back of allowance (allowance) for doubtful debts	494	2,446	(3,882)
Impairment loss recognised in respect of goodwill	—	—	(21,122)
Finance costs	(268)	(153)	(1,275)
Loss before taxation	(14,979)	(9,909)	(32,857)
Taxation	(2,832)	(1,572)	—
Loss for the year	(17,811)	(11,481)	(32,857)

CONSOLIDATED BALANCE SHEET

At 31 March

	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	102,831	66,836	24,596
Prepaid lease payments	40,667	31,642	8,814
Deposits for acquisition of property, plant and equipment	17,725	16,125	15,628
	161,223	114,603	49,038
Current assets			
Inventories	5,818	15,445	4,629
Trade and other receivables	25,698	44,783	21,673
Prepaid lease payments	857	656	183
Bank balances and cash	139,753	29,392	110,018
	172,126	90,276	136,503
Current liabilities			
Trade and other payables	26,000	24,453	8,847
Bills payable	1,818	4,146	682
Bank loans	—	6,038	984
Convertible note	33,750	—	—
Tax payable	4,816	1,608	—
	66,384	36,245	10,513
Net current assets	105,742	54,031	125,990
Net assets	266,965	168,634	175,028
Capital and reserves			
Share capital	58,906	39,271	3,927
Reserves	208,059	129,363	171,101
	266,965	168,634	175,028

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below is a reproduction of the text of the audited consolidated financial statements of the Group together with the accompanying notes contained on pages 26 to 67 of the annual report of the Company for the year ended 31 March 2008.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March 2008

	NOTES	**2008** *HK$'000*	**2007** *HK$'000*
Turnover	6	74,923	75,964
Cost of sales and services		(65,721)	(74,717)
Gross profit		9,202	1,247
Other income		1,742	2,667
Other expenses	29	(10,702)	(608)
Distribution costs		(384)	(424)
Administrative expenses		(15,063)	(15,084)
Write back of allowance for doubtful debts		494	2,446
Finance costs	8	(268)	(153)
Loss before taxation	9	(14,979)	(9,909)
Taxation	11	(2,832)	(1,572)
Loss for the year		(17,811)	(11,481)
Basic loss per share	12	HK cent (0.4)	HK cent (0.3)

CONSOLIDATED BALANCE SHEET

At 31 March 2008

	NOTES	**2008**	**2007**
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment	14	102,831	66,836
Prepaid lease payments	15	40,667	31,642
Deposits for acquisition of property, plant and equipment		17,725	16,125
		161,223	114,603
Current assets			
Inventories	16	5,818	15,445
Trade and other receivables	17	25,698	44,783
Prepaid lease payments	15	857	656
Bank balances and cash	18	139,753	29,392
		172,126	90,276
Current liabilities			
Trade and other payables	19	26,000	24,453
Bills payable	20	1,818	4,146
Bank loans	21	—	6,038
Convertible note	22	33,750	—
Tax payable		4,816	1,608
		66,384	36,245
Net current assets		105,742	54,031
Net assets		266,965	168,634
Capital and reserves			
Share capital	23	58,906	39,271
Reserves		208,059	129,363
		266,965	168,634

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2008

	Share capital	Share premium	Convertible note equity reserve	Capital reserve	Contributed surplus	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2006	3,927	199,632	—	53,194	714	2,051	(84,490)	175,028
Exchange differences arising on translation of foreign operations	—	—	—	—	—	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 *(see note 23(a))*	35,344	(35,344)	—	—	—	—	—	—
At 31 March 2007	39,271	164,288	—	53,194	714	7,138	(95,971)	168,634
Exchange differences arising on translation of foreign operations	—	—	—	—	—	10,573	—	10,573
Loss for the year	—	—	—	—	—	—	(17,811)	(17,811)
Total recognised income and expense for the year	—	—	—	—	—	10,573	(17,811)	(7,238)
Equity component of convertible note *(see note 22)*	—	—	4,128	—	—	—	—	4,128
Rights issue of shares *(see note 23(b))*	19,635	82,469	—	—	—	—	—	102,104
Transaction costs attributable to issue of new shares	—	(663)	—	—	—	—	—	(663)
At 31 March 2008	**58,906**	**246,094**	**4,128**	**53,194**	**714**	**17,711**	**(113,782)**	**266,965**

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 2008

	2008	2007
	HK$'000	*HK$'000*
Operating activities		
Loss before taxation	(14,979)	(9,909)
Adjustments for:		
Interest income	(756)	(1,926)
Interest expense	268	153
Depreciation	3,614	3,332
Amortisation of prepaid lease payments	762	301
Write back of allowance for inventories	(255)	(96)
Write back of allowance for doubtful debts	(494)	(2,446)
Loss on disposal of property, plant and equipment	20	127
Operating cash flows before movements in working capital	(11,820)	(10,464)
Decrease (increase) in inventories	9,882	(10,720)
Decrease (increase) in trade and other receivables	19,579	(20,665)
Increase in trade and other payables	2,544	15,448
(Decrease) increase in bills payable	(2,328)	3,464
Net cash from (used in) operating activities	17,857	(22,937)
Investing activities		
Interest received	756	1,926
Purchase of property, plant and equipment	(35,182)	(44,926)
Purchase of land use rights	(6,828)	(23,209)
Proceeds from disposal of property, plant and equipment	—	214
Deposits paid for acquisition of property, plant and equipment	—	(139)
Net cash used in investing activities	(41,254)	(66,134)
Financing activities		
Net proceeds from issue of new shares	101,441	—
Proceeds from issue of convertible note	37,650	—
Bank loans raised	2,042	16,153
Repayments of bank loans	(8,080)	(11,099)
Interest paid	(40)	(153)
Net cash from financing activities	133,013	4,901
Net increase (decrease) in cash and cash equivalents	109,616	(84,170)
Cash and cash equivalents at beginning of the year	29,392	110,018
Effect of foreign exchange rate changes	745	3,544
Cash and cash equivalents at end of the year, represented by bank balances and cash	139,753	29,392

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2008

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 of the annual report.

The financial statements are presented in Hong Kong dollars ("HK$" or "HKD") which is the same as the functional currency of the Company.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company and its subsidiaries (collectively referred to as the "Group") has applied, for the first time, the following new Standards, Amendments and Interpretations ("INTs") (collectively "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 April 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC) — INT 8	Scope of HKFRS 2
HK(IFRIC) — INT 9	Reassessment of embedded derivatives
HK(IFRIC) — INT 10	Interim financial reporting and impairment
HK(IFRIC) — INT 11	HKFRS 2 — Group and treasury share transactions

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

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 "Financial instruments: Presentation" has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised Standards or INTs that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC) — INT 12	Service concession arrangements [3]
HK(IFRIC) — INT 13	Customer loyalty programmes [4]
HK(IFRIC) — INT 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

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

[2] Effective for annual periods beginning on or after 1 July 2009.

[3] Effective for annual periods beginning on or after 1 January 2008.

[4] Effective for annual periods beginning on or after 1 July 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting treatment for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised Standards and INTs will have no material impact on the results or financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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.

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 sold and services provided in the normal course of business, net of discounts and sales related taxes.

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

Service income is recognised when 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 accumulated impairment losses.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. 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.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the 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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the initial carrying amount of the asset.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets other than trade and other receivables, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of trade receivables and other receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. Objective evidence of impairment for trade and other receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the trade and other receivables past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default in the receivables. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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 instruments

Financial liabilities and equity instruments issued by a group entity 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 Group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

Convertible note

Convertible note containing liability and equity components

A convertible note issued by the Company that contains both the liability and conversion option components is classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible note and the fair value assigned to the liability component, representing the conversion option for the holder to convert the note into equity, is included in equity (convertible note equity reserve).

In subsequent periods, the liability component of the convertible note is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible note equity reserve until the embedded option is exercised (in which case the balance stated in convertible note equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible note equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible note are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible note using the effective interest method.

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 and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised 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 and payable is recognised in profit or loss.

Impairment loss on tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible 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 consolidated 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 profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

Retirement benefits costs

Payments to the state-sponsored pension scheme operated by the Mainland China (the "PRC") government or the Hong Kong 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 profit or loss in the period in which they are incurred.

4. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes convertible note disclosed in note 22, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with the capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and raising of bank loans.

5. FINANCIAL INSTRUMENTS

a. **Categories of financial instruments**

	2008	2007
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables	25,078	42,620
Bank balances and cash	139,753	29,392
	164,831	72,012
Financial liabilities		
Amortised costs		
Trade and other payables	5,910	14,454
Bills payable	1,818	4,146
Bank loans	—	6,038
Convertible note	33,750	—
	41,478	24,638

b. **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, bank loans and convertible note. 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.

Market risk

(i) ***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 bank loans (see note 21 for details of these loans). It is the Group's policy to keep its bank loans at floating rates of interest so as to minimise the fair value interest rate risk.

Sensitivity analysis

At balance sheet dates, the Group's exposure to interest rates for non-derivative instruments was not significant. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, there is no significant effect on the Group's loss for the year ended 31 March 2008 (2007: the Group's loss would increase/decrease by HK$60,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

(ii) ***Currency risk***

Certain subsidiaries of the Company have foreign currency sales or purchases denominated in currencies other than their functional currencies, which expose the Group to foreign currency risk. Approximately 4.46% of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst approximately 54.95% of purchases/costs of goods sold are denominated in the group entity's functional currency.

The Group also had foreign currency exposure arising from the bank loans denominated in United States dollars ("USD").

The carrying net amount of the group entities' foreign currency denominated monetary assets and monetary liabilities at the balance sheet date is as follows:

	Liabilities		**Assets**	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi ("RMB")	1,967	3,020	2,102	1,265
HKD	—	—	3	168
USD	1,818	10,184	—	—

Sensitivity analysis

The Group is mainly exposed to the currency of RMB and the currency of USD.

The following table details the group entities' sensitivity to a 5% increase and decrease in HKD against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in loss where HKD weaken 5% against the relevant currency. For a 5% strengthening of HKD against the relevant currency, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	RMB Impact		**HKD Impact**		**USD Impact**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Decrease (increase) in loss	7	(88)	—	(8)	(91)	(509)

The Group currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, the management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposures should the need arise.

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 2008 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 2008, the Group has concentration of credit risk in the trade receivables balance amounting to HK$23,905,000 (2007: 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 the 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 and state-owned banks with good reputation.

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.

As at 31 March 2008, the Group has available unutilised bank loan facilities of HK$8,182,000 (2007: HK$3,446,000).

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Effective interest rate	**Less than 3 months**	**3 months to 1 year**	**Total undiscounted cash flows**	**Carrying amount at 31.3.2008**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008					
Non-derivative financial liabilities					
Trade and other payables	—	5,857	53	5,910	5,910
Bills payable	—	1,818	—	1,818	1,818
Convertible note	13.08	—	38,027	38,027	33,750
		7,675	38,080	45,755	41,478

	Effective interest rate	**Less than 3 months**	**3 months to 1 year**	**Total undiscounted cash flows**	**Carrying amount at 31.3.2007**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007					
Non-derivative financial liabilities					
Trade and other payables	—	14,312	142	14,454	14,454
Bills payable	—	4,146	—	4,146	4,146
Bank loans*	9.00	6,173	—	6,173	6,038
		24,631	142	24,773	24,638

* The interest rates applied to projected undiscounted cash flows of variable-rate bank loans are the interest rates at the balance sheet date.

c. **Fair value**

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

6. TURNOVER

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

	2008	**2007**
	HK$'000	*HK$'000*
Bleaching and dyeing		
— sales of goods	71,240	71,707
— service income	3,651	4,257
	74,891	75,964
Knitting services	32	—
	74,923	75,964

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group's primary format for reporting segment information is business segments. For management purposes, the Group is currently organised into 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 2008

(i) **Consolidated income statement**

	Bleaching and dyeing	Knitting	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External	74,891	32	—	74,923
Inter-segment *(note)*	—	8,455	(8,455)	—
Total	74,891	8,487	(8,455)	74,923
Segment result	(2,323)	(1,362)	—	(3,685)
Interest income				756
Unallocated corporate expenses				(11,782)
Finance costs				(268)
Loss before taxation				(14,979)
Taxation				(2,832)
Loss for the year				(17,811)

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

(ii) **Consolidated balance sheet**

	Bleaching and dyeing *HK$'000*	Knitting *HK$'000*	Consolidated *HK$'000*
ASSETS			
Segment assets	79,110	25,813	104,923
Unallocated corporate assets			228,426
Consolidated total assets			333,349
LIABILITIES			
Segment liabilities	13,723	2,753	16,476
Unallocated corporate liabilities			49,908
Consolidated total liabilities			66,384

(iii) **Other information**

	Bleaching and dyeing *HK$'000*	Knitting *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Capital additions	1,171	1,242	32,769	35,182
Amortisation	409	259	94	762
Depreciation	2,038	1,508	68	3,614
Loss on disposal of property, plant and equipment	20	—	—	20

For the year ended 31 March 2007

(i) **Consolidated income statement**

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

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

(ii) **Consolidated balance sheet**

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

(iii) **Other information**

	Bleaching and dyeing	Knitting	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	2,779	409	42,058	45,246
Amortisation	148	71	82	301
Depreciation	1,931	1,340	61	3,332
Loss on disposal of property, plant and equipment	127	—	—	127

Geographical segments

The Group's turnover is mainly derived from sales made to customers in Hong Kong with manufacturing operations located in the PRC. The Group's sales were mainly denominated and settled in Hong Kong dollars while the Group's purchases were over 50% denominated and settled in Hong Kong dollars.

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	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	512	1,567	—	—
PRC	193,084	173,920	35,182	45,246
	193,596	175,487	35,182	45,246

8. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	40	153
Imputed interest on convertible note *(note 22)*	228	—
	268	153

9. LOSS BEFORE TAXATION

	2008	2007
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging:		
Directors' remuneration *(note 10(a))*	3,086	2,700
Other staff costs, including retirement benefits costs	7,870	8,151
Total staff costs	10,956	10,851
Amortisation of prepaid lease payments	762	301
Auditor's remuneration	887	726
Cost of inventories recognised as an expense	61,150	68,629
Depreciation	3,614	3,332
Loss on disposal of property, plant and equipment	20	127
and after crediting:		
Interest income	756	1,926
Write-back of allowance for inventories	255	96

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

Details of emoluments to the directors of the Company for the year ended 31 March 2008 are as follows:

	Kwong Jimmy Cheung Tim	Lui Yuk Chu	Tse Wing Chiu, Ricky	Kan Ka Hon	Lau Sin Ming	Foo Tak Ching	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	100	100	100	300
Other emoluments							
— Salaries and other benefits	681	1,212	893	—	—	—	2,786
Total directors' emoluments	681	1,212	893	100	100	100	3,086

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	Kwong Jimmy Cheung Tim	Kan Ka Hon	Lau Sin Ming	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	100	100	100	300
Other emoluments						
— Salaries and other benefits	1,200	1,200	—	—	—	2,400
Total directors'emoluments	1,200	1,200	100	100	100	2,700

(b) **Information regarding employees' emoluments**

The five highest paid individuals of the Group included three (2007: two) directors whose emoluments were included above. The emoluments of the remaining two (2007: three) highest paid individuals, not being directors, are as follows:

	2008	2007
	HK$'000	*HK$'000*
Salaries and other benefits	1,053	1,206
Retirement benefits costs	24	35
	1,077	1,241

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.

11. TAXATION

	2008	2007
	HK$'000	*HK$'000*
The charge comprises:		
PRC enterprise income tax		
— current year	1,467	1,572
— underprovision in prior years	1,365	—
	2,832	1,572

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for both years.

Pursuant to Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises in the PRC, the Company's subsidiaries in the PRC 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 PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% for the Company's PRC subsidiaries since 1 January 2008.

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

	2008	**2007**
	HK$'000	*HK$'000*
Loss before taxation	(14,979)	(9,909)
Tax credit at the applicable rate of 33% (2007: 33%)	(4,943)	(3,270)
Tax effect of income not taxable for tax purposes	(176)	(399)
Tax effect of expenses not deductible for tax purposes	6,367	3,364
Underprovision in respect of prior years	1,365	—
Tax effect of tax losses not recognised	160	2,076
Tax effect attributable to concessionary tax rate in the PRC	(21)	(349)
Others	80	150
Tax charge for the year	2,832	1,572

12. BASIC LOSS PER SHARE

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

	2008	**2007**
	HK$'000	*HK$'000*
Loss for the purposes of basic loss per share	(17,811)	(11,481)

	2008	**2007**
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	4,264,299,415	3,872,881,602

The denominator for the purposes of calculating basic loss per share for the year ended 31 March 2007 has been adjusted to reflect the rights issue on the basis of one rights share for every two ordinary shares held in January 2008.

No diluted loss per share for the year ended 31 March 2008 is computed for the conversion of the Company's outstanding convertible note since its exercise would result in a decrease in loss per share. In addition, there are no outstanding share options during both years.

13. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

(a) During the year, the Group received administrative services from wholly-owned subsidiaries of Easyknit International Holdings Limited ("Easyknit International") and paid service fee as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Grand Modern Investment Limited (formerly known as Easyknit International Trading Company Limited)	80	240
Easyknit Global Company Limited (formerly known as Easyknit Trading Company Limited and Perfect Luck Development Limited)	160	—
	240	240

Ms. Lui Yuk Chu, a director of the Company, has beneficial interests in Easyknit International and the Company is an associate of Easyknit International.

During the year, the Group also purchased a motor vehicle amounting to HK$576,000 (2007: nil) from Grand Modern Investment Limited.

(b) **Compensation of key management personnel**

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

	2008	**2007**
	HK$'000	*HK$'000*
Short-term employee benefits	3,863	3,018

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.

14. 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 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
Disposal	(542)	(16)	(96)	—	(654)
At 31 March 2007	25,512	2,907	1,480	46,344	76,243
Currency realignment	—	—	—	4,447	4,447
Additions	542	24	575	34,041	35,182
Disposal	(39)	(16)	—	—	(55)
At 31 March 2008	**26,015**	**2,915**	**2,055**	**84,832**	**115,817**
DEPRECIATION					
At 1 April 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
Provided for the year	2,755	491	368	—	3,614
Eliminated on disposal	(22)	(13)	—	—	(35)
At 31 March 2008	**9,677**	**2,311**	**998**	**—**	**12,986**
CARRYING VALUES					
At 31 March 2008	**16,338**	**604**	**1,057**	**84,832**	**102,831**
At 31 March 2007	18,568	1,074	850	46,344	66,836

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

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

15. PREPAID LEASE PAYMENTS

	HK$'000
COST	
1 April 2006	9,165
Currency realignment	407
Additions	23,209
At 31 March 2007	32,781
Currency realignment	3,251
Additions	**6,828**
At 31 March 2008	42,860
AMORTISATION	
At 1 April 2006	168
Currency realignment	14
Provided for the year	301
At 31 March 2007	483
Currency realignment	91
Provided for the year	762
At 31 March 2008	**1,336**
CARRYING VALUE	
At 31 March 2008	**41,524**
At 31 March 2007	32,298

	2008	**2007**
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current asset	857	656
Non-current asset	40,667	31,642
	41,524	32,298

All of the Group's prepaid lease payments comprise medium-term land use rights situated in the PRC. At 31 March 2008, the relevant PRC authority has not vacated certain land of carrying amount of HK$37,020,000 (2007: HK$28,258,000) for the use by the Group, HK$20,954,000 (2007: HK$28,258,000) of which have yet to be granted the land use rights certificates.

16. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
Raw materials	5,319	14,830
Work-in-progress	369	120
Finished goods	130	495
	5,818	15,445

17. 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:

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	26,112	43,451
Less: Allowance for doubtful debts	(1,245)	(1,763)
	24,867	41,688
Prepayments	620	2,163
Other receivables	211	932
	25,698	44,783

	2008	2007
	HK$'000	*HK$'000*
0 - 60 days	7,616	10,026
61 - 90 days	5,536	10,655
Over 90 days	11,715	21,007
	24,867	41,688

The management closely monitors the credit quality of trade and other receivables and considers trade and other receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$11,822,000 (2007: HK$9,906,000) which are past due at the reporting date for which the Group has not provided for allowance. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables which are past due but not impaired:

	2008	2007
	HK$'000	*HK$'000*
Over due by 1 to 60 days	10,004	9,576
Over due by 61 to 90 days	1,139	13
Over due by over 90 days	679	317
	11,822	9,906

Movement in the allowance for doubtful debts:

	2008	2007
	HK$'000	*HK$'000*
Balance at beginning of the year	1,763	4,173
Currency realignment	—	127
Amounts written off as uncollectible	(24)	(91)
Impairment losses recognised on receivables	—	1,590
Amounts recovered during the year	(494)	(4,036)
Balance at end of the year	1,245	1,763

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$1,245,000 (2007: HK$1,763,000) which have either been placed under liquidation or in serve financial difficulties. The Group does not hold any collateral over these balances.

Based on the historical experience of the Group, trade receivables that are past due are generally recoverable and as a result, no allowance was made for trade receivables at the balance sheet date.

18. BANK BALANCES AND CASH

The amounts comprise bank balances and 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 0.01% to 3.33% (2007: 0.72% to 2.375%) per annum.

19. TRADE AND OTHER PAYABLES

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

	2008	2007
	HK$'000	*HK$'000*
0 - 60 days	3,016	4,444
61 - 90 days	1,206	2,494
Over 90 days	598	1,408
Trade payables	4,820	8,346
Accruals	20,090	9,999
Other payables	1,090	6,108
	26,000	24,453

The average credit period on purchases of goods is 90 days.

20. BILLS PAYABLE

At 31 March 2008, the bills payable is aged within 120 days (2007: 120 days).

21. BANK LOANS

At 31 March 2007, the Group's bank loans were at variable-rates in the range from 8.75% to 9.0% per annum and denominated in USD. The bank loans were unsecured and repaid during the year ended 31 March 2008.

22. CONVERTIBLE NOTE

Convertible note containing liability and equity components

In March 2008, the Company issued to an independent third party a convertible note at its par value of HK$37,650,000. The convertible note is denominated in Hong Kong dollars. The note entitles the holder to convert it into ordinary shares of the Company at any time between the date of issue of the note on 12 March 2008 and its settlement date on 11 March 2009 at a conversion price of HK$0.048 per conversion share (subject to adjustment). Assuming full conversion of the convertible note at a conversion price of HK$0.048 at the date of issue of the note, the convertible note will be convertible into 784,375,000 new ordinary shares of HK$0.01 each in the share capital of the Company. The converted shares will be allotted and issued under the general mandate granted to the directors of the Company at the 2007 annual general meeting of the Company held on 16 August 2007. If the convertible note has not been converted, it would be redeemed on 11 March 2009 at par. Interest of 1% per annum will be paid semi-annually in arrears up until the settlement date.

The convertible note contains two components, liability and equity elements. The equity component is presented in equity heading "convertible note equity reserve". The effective interest rate of the liability component is 13.08% per annum.

The movement of the liability component of the convertible note for the year ended 31 March 2008 is set out below:

	HK$'000
Carrying amount upon issue of the convertible note during the year	33,522
Interest charge *(note 8)*	228
Carrying amount at 31 March 2008	33,750

23. SHARE CAPITAL

	Notes	**Nominal value per share** *HK$*	**Number of shares**	**Amount** *HK$'000*
Authorised:				
At 1 April 2006		0.01	650,000,000	6,500
Increase in authorised share capital	(a)(i)	0.01	19,350,000,000	193,500
At 31 March 2007 and 31 March 2008		**0.01**	**20,000,000,000**	**200,000**
Issued and fully paid:				
At 1 April 2006		0.01	392,707,524	3,927
Bonus issue by capitalisation of the share premium account	(a)(ii)	0.01	3,534,367,716	35,344
At 31 March 2007		0.01	3,927,075,240	39,271
Rights issue of shares	(b)	0.01	1,963,537,620	19,635
At 31 March 2008		**0.01**	**5,890,612,860**	**58,906**

Notes:

(a) 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 HK$35,344,000 from the Company's share premium account on the basis of nine bonus shares for every share then 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.

(b) On 21 January 2008, the Company allotted 1,963,537,620 rights shares of HK$0.01 each at the subscription price of HK$0.052 per rights share on the basis of one rights share for every two existing ordinary shares held. The Company raised HK$101,441,000 (net of expenses) with the intention to finance the development of manufacturing operations in Huzhou, the PRC and for general working capital use.

24. DEFERRED TAXATION

At 31 March 2008, deductible temporary difference in respect of tax losses not recognised in the consolidated financial statements were HK$23,400,000 (2007: HK$22,915,000). 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 HK$5,176,000 (2007: HK$4,691,000), which can only be carried forward for a maximum period of five years. Other losses may be carried forward indefinitely.

25. SHARE OPTION SCHEME

On 6 June 2002, a share option scheme (the “Share Option Scheme”) was approved by the shareholders of the Company. Under the terms of the 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 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 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 Share Option Scheme.

The maximum number of shares issuable upon the exercise of the share options granted to each eligible participant of the 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 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 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 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 Share Option Scheme since its adoption.

26. CAPITAL COMMITMENTS

	2008	**2007**
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment		
— contracted for but not provided in the consolidated financial statements	45,654	80,104
— authorised but not contracted for	384,636	347,771
	430,290	427,875

The capital expenditure shown above is principally for the purpose of development of manufacturing operations in the PRC.

27. OPERATING LEASE ARRANGEMENTS

	2008	**2007**
	HK$'000	*HK$'000*
Minimum lease payments recognised in the consolidated income statement during the year	1,706	1,472

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

	2008	**2007**
	HK$'000	*HK$'000*
Within one year	1,511	1,442
In the second to fifth year inclusive	4,250	4,926
Over five years	920	1,396
	6,681	7,764

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.

28. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong 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.

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

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

	2008	**2007**
	HK$'000	*HK$'000*
Employers' contributions charged to the consolidated income statement	157	143

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

29. SIGNIFICANT EVENTS

The Company included in note 27 of the Group's annual financial statements for the year ended 31 March 2007, details of, among others, a possible merger involving Wits Basin Precious Minerals Inc. ("Wits Basin") and a possible issue of approximately 3 billion shares by the Company to the shareholders of Wits Basin. Wits Basin is a company incorporated in Minnesota, the United States of America (the "USA") whose principal business was the exploration and development of minerals in Mexico, Colorado and South Africa.

The Company further announced on 20 August and 6 November 2007 that Wits Basin had sent a letter to the Company purporting to terminate the merger agreements on the grounds cited or on any other grounds. The Company did not admit any allegations made by Wits Basin or that Wits Basin was entitled to terminate the merger agreements on the grounds cited or on any other grounds. The Company took legal advice in the USA about the purported termination of the merger agreements and instructed its lawyers in the USA to claim from Wits Basin for a break up fee of US$30,000,000 (approximately HK$234 million) according to the termination clauses noted in the merger agreements.

On 19 December 2007, the Group entered into a settlement agreement and general release (the "Settlement and Release") with Wits Basin in relation to the merger agreements and the litigation between the Group and Wits Basin. Pursuant to the Settlement and Release, among others, the possible merger will not proceed and the Company and Wits Basin agreed to dismiss the litigation previously started by Wits Basin on 15 August 2007, including all claims, counterclaims, and defences, with prejudice and on the merits, without further costs or fees to any party. In addition, it was agreed that all written or oral agreements entered into between the Group and Wits Basin prior to the execution of the Settlement and Release were deemed terminated. Details of the Settlement and Release are set out in the Company's announcement dated 19 December 2007.

Professional fees incurred during the year in relation to the possible merger and the Settlement and Release amounted to HK$9,135,000 (2007: nil), which have been charged to the consolidated income statement and included in other expenses.

30. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 March 2008 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")[1]	PRC	Registered HK$11,260,000	—	100%	Bleaching and dyeing
永義紡織(河源)有限公司 ("He Yuan")[2]	PRC	Registered US$1,000,000	—	100%	Knitting
永義製衣(湖州)有限公司 ("Huzhou Garment")[3]	PRC	Registered US$8,634,800	—	100%	Construction in progress of garment production plant for own use
永義紡織(湖州)有限公司 ("Huzhou Knitting")[4]	PRC	Registered US$3,313,846	—	100%	Construction in progress of knitting production plant for own use
永義漂染(湖州)有限公司 ("Huzhou Bleaching and Dyeing")[5]	PRC	Registered US$3,009,110	—	100%	Construction in progress of bleaching and dyeing production plant for own use

Notes:

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

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

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

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

5 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 2008.

31. POST BALANCE SHEET EVENT

Subsequent to 31 March 2008, the holder of the Group's convertible note fully exercised his conversion right and converted the convertible note at its par value of HK$37,650,000 into 784,375,000 new ordinary shares of HK$0.01 each in the share capital of the Company at the conversion price of HK$0.048 per conversion share.

4. 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 circular in the absence of unforeseen circumstances.

5. INDEBTEDNESS

At the close of business on 31 October 2008, being the latest practicable date for ascertaining this indebtedness prior to the printing of this Circular, the Group had available banking facilities which were secured by a fixed charge over a bank deposit of the Group. Other than normal trade bills, no facility was utilised by the Group at the close of business on 31 October 2008.

Apart from intra-group liabilities, the Group did not have 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.

In addition, details of litigation in which the Group was engaged are set out in section 5 of Appendix III to this Circular.

6. 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 2008. 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 2008 as extracted from the published unaudited interim report of the Group for the six months ended 30 September 2008 and is adjusted for the effect of the Rights Issue.

Unaudited consolidated net tangible assets of the Group as at 30 September 2008	**Estimated net proceeds from the Rights Issue**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group as at 30 September 2008 as adjusted for the Rights Issue**	**Unaudited pro forma adjusted consolidated net tangible assets per Share as at 30 September 2008 as adjusted for the Rights Issue**
(Note 1)	*(Note 2)*		*(Note 3)*
HK$'000	*HK$'000*	*HK$'000*	*HK$*
289,225	98,100	387,325	0.528

Notes:

1. The unaudited consolidated net tangible assets of the Group as at 30 September 2008 is based on the net assets of the Group as shown in the condensed consolidated balance sheet as at 30 September 2008.

2. The estimated net proceeds from the Rights Issue are based on 667,499,000 Rights Shares of HK$0.01 each at HK$0.15 per Rights Share, after deducting the estimated underwriting fees and other related expenses of approximately HK$2.0 million to be incurred by the Company.

3. The number of Shares used for the calculation of this amount is 734,248,900 which will be the total number of Shares expected to be in issue after the Rights Issue representing the existing 66,749,900 Shares in issue as at the Latest Practicable Date and 667,499,000 Rights Shares.

7. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Deloitte.
德勤

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 667,499,000 rights shares of HK$0.01 each at HK$0.15 per rights share on the basis of ten rights share for every existing share held might have affected the consolidated net tangible assets of the Group presented, for inclusion in Section 6 of Appendix II to the circular of the Company dated 8 December 2008 (the "Circular"). The basis of preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets is set out in Section 6 of Appendix II to the Circular.

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 2008 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

8 December 2008

1. RESPONSIBILITY STATEMENT

This circular 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 circular 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 BY DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Provision of Division 7 and 8 of Part XV of the SFO (including interests or the short positions which they were taken or deemed to have under such provision of the SFO); or (ii) pursuant to Section 352 of Part XV of the SFO, to be entered in the register referred therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

(a) Interests in the issued Shares

Name of Director	Capacity	Number of issued Shares held (long positions)	Approximate percentage of interest
Ms. Lui Yuk Chu (*Note i*)	Beneficiary of a trust	21,162,787	31.70%

Note i: 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 included Ms. Lui Yuk Chu and her family members other than her spouse).

(b) **Interests in the unissued Shares**

Name of Director	Capacity	Number of unissued Shares held (long positions)	Approximate percentage of interest
Ms. Lui Yuk Chu *(Note ii)*	Beneficiary of a trust	211,627,870	31.70%

Note ii: The 211,627,870 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 her spouse).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and/or 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 the 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.

At the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 March 2008 (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.

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

3. DISCLOSURE OF INTEREST BY SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, the following persons ("Substantial Shareholders")(other than the Directors and the chief executives of the Company) had following interests or a short position in the shares and/or underlying shares which would fall to be disclosed to the Company under the provision of Division 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:

(a) **Interests in the issued Shares**

Name of Shareholder	Nature of Interest	Number of issued Shares held (long position)	Approximate percentage of interest
Koon Wing Yee *(note i)*	Interest of spouse	21,162,787	31.70%
Landmark Profits *(notes i and ii)*	Beneficial owner	21,162,787	31.70%
Easyknit International *(notes i and ii)*	Interest of controlled corporation	21,162,787	31.70%
Magical Profits Limited *(notes i and iii)*	Interest of controlled corporation	21,162,787	31.70%
Accumulate More Profits Limited *(note i)*	Interest of controlled corporation	21,162,787	31.70%
Hang Seng Bank Trustee International Limited *(notes i & iv)*	Trustee	21,162,787	31.70%
Hang Seng Bank Limited *(note iv)*	Interest of controlled corporation	21,162,787	31.70%
The Hongkong and Shanghai Banking Corporation Limited *(note v)*	Interest of controlled corporation	21,162,788	31.70%
HSBC Asia Holdings BV *(note v)*	Interest of controlled corporation	21,162,788	31.70%
HSBC Asia Holdings (UK) *(note v)*	Interest of controlled corporation	21,162,788	31.70%
HSBC Holdings BV *(note v)*	Interest of controlled corporation	21,162,788	31.70%
HSBC Finance (Netherlands) *(note v)*	Interest of controlled corporation	21,162,788	31.70%
HSBC Holdings plc *(note v)*	Interest of controlled corporation	21,162,788	31.70%

Notes:

(i) The 21,162,787 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, 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 21,162,787 shares by virtue of the SFO.

(ii) Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu, being Directors, are also directors of Landmark Profits and Easyknit International.

(iii) Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits.

(iv) 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 & Shanghai Banking Corporation Limited.

(v) The 21,162,788 shares relate to the same block of shares. Out of the 21,162,788 shares, 21,162,787 shares were registered in the name of and beneficially owned by Landmark Profits Limited. The remaining one share was held by HSBC Broking Securities (Asia) Limited, which was a wholly-owned subsidiary of HSBC Broking Services (Asia) Limited which in turn was wholly-owned by The Hongkong and Shanghai Banking Corporation Limited. The Hongkong & 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) **Interests in the unissued Shares**

Name of Shareholder	**Nature of Interest**	**Number of unissued Shares held (long position)**
Koon Wing Yee *(note i)*	Interest of spouse	211,627,870
Landmark Profits *(notes i and ii)*	Beneficial owner	211,627,870
Easyknit International *(notes i and ii)*	Interest of controlled corporation	211,627,870
Magical Profits Limited *(notes i and iii)*	Interest of controlled corporation	211,627,870
Accumulate More Profits Limited *(note i)*	Interest of controlled corporation	211,627,870
Hang Seng Bank Trustee International Limited *(notes i & iv)*	Trustee	211,627,870
Hang Seng Bank Limited *(note iv)*	Interest of controlled corporation	211,627,870

Name of Shareholder	Nature of Interest	Number of unissued Shares held (long position)
The Hongkong and Shanghai Banking Corporation Limited *(note iv)*	Interest of controlled corporation	211,627,870
HSBC Asia Holdings BV *(note iv)*	Interest of controlled corporation	211,627,870
HSBC Asia Holdings (UK) *(note iv)*	Interest of controlled corporation	211,627,870
HSBC Holdings BV *(note iv)*	Interest of controlled corporation	211,627,870
HSBC Finance (Netherlands) *(note iv)*	Interest of controlled corporation	211,627,870
HSBC Holdings plc (note iv)	Interest of controlled corporation	211,627,870
Get Nice Securities Limited *(note v)*	Beneficial owner	455,871,130
Get Nice Incorporated *(note v)*	Interest of controlled corporation	455,871,130
Get Nice Holdings Limited *(note v)*	Interest of controlled corporation	455,871,130
Cheer Union Securities Limited *(note vi)*	Other	220,000,000
Chau Vinh Heng *(note vii)*	Beneficial owner	134,771,130

Notes:

(i) The 211,627,870 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 her spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 211,627,870 Shares by virtue of the SFO.

(ii) Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu, being Directors, are also directors of Landmark Profits and Easyknit International.

(iii) Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits Limited.

(iv) 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 & Shanghai Banking Corporation Limited. The Hongkong & 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.

(v) The 455,871,130 Shares are the Rights Shares which the Underwriter has underwritten in respect of the Rights Issue. The Underwriter was wholly-owned by Get Nice Incorporated which was a wholly-owned subsidiary of Get Nice Holdings Limited.

(vi) The 220,000,000 Shares are the Rights Shares which Cheer Union Securities Limited has sub-underwritten in respect of the Rights Issue from the Underwriter.

(vii) The 134,771,130 Shares are the Right Shares which Chau Vinh Heng 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. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing and proposed service contract with any members of the Group other than contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

5. LITIGATION

On 19 June 2008, the Group received a notice dated 18 May 2008 from the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) ("Arbitration Commission") notifying the Group that Huizhou City Construction Engineering Head Company (惠州市建築工程總公司) ("Huizhou Construction"), the former contractor of the Group for the Huzhou Project, made an application to the Arbitration Commission for a claim of approximately RMB3,046,635 against Easyknit Garment (Huzhou) Co. Limited, a wholly owned subsidiary of the Group, being a dispute on variations in the construction work in the Huzhou Project. The Group has, through its legal adviser in China, defended the claim.

As at the Latest Practicable Date, the arbitration is still in progress. The Directors are of the view that, based on advice from its legal adviser in China, Huizhou Construction has no grounds for its claim and no payment is required to be paid to Huizhou Construction apart from the outstanding construction fees due to Huizhou Construction of RMB884,761.

Save as disclosed above, 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 unaudited interim results of the Group for the six months ended 30 September 2008 set out in Appendix I of this circular, there has not been any material adverse change in the financial or trading position of the Group since 31 March 2008, being the date to which the latest published audited accounts of the Group were made up.

7. DIRECTORS' INTEREST IN COMPETING BUSINESS

To the best of the Directors' knowledge, none of the Directors and their respective associates are considered to have any interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

8. INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, to the best of the knowledge of the Directors, none of the Directors or proposed directors of the Company or any expert named in this circular had any direct or indirect interest in any asset which had been, since 31 March 2008, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of, by or leased to any member of the Group or are proposed to be acquired or disposed of, by or leased to any member of the Group.

9. 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 circular in the absence of unforeseen circumstances.

10. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Group, were entered into by the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

(a) a conditional merger agreement entered into between Wits Basin Precious Minerals Inc, ("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 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;

(e) the underwriting agreement dated 29 November 2007 entered into between the Company and Kingston Securities Limited in relation to the rights issue of 1,963,537,620 rights shares at HK$0.052 per rights share on the basis of one rights share for every two shares held;

(f) the subscription agreement 28 February 2008 between the Company and Chen Tien Tui for the issue of a convertible note with a principal amount of HK$37,650,000 at the initial conversion price of HK$0.048 per share; and

(g) the Underwriting Agreement.

Save as disclosed, none of the members of the Group has entered into any contracts (not being contracts entered into in the ordinary course of business) within two years immediately preceding the Latest Practicable Date that are or may be material.

11. EXPERT AND CONSENT

The following is the qualification of the experts who have been named in this circular or have given their opinion or advice which is contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
Menlo Capital	a licensed corporation for type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu and Menlo Capital do not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu and Menlo Capital do not have any direct or indirect interests in any assets which have been, since 31 March 2008 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of Deloitte Touche Tohmatsu and Menlo Capital have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their letter and the references to their name in the form and context in which they appear.

12. GENERAL

(a) The company secretary of the Company is Mr. Chan Po Cheung, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

(b) The qualified accountant of the Company is Mr. Hsu Kei Leung, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

(c) The principal share registrar and transfer office of the Company is The Bank of Bermuda Limited at Bank of Bermuda Building, 6 Front Street, Hamilton HM 11, Bermuda and the Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.

(d) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda and principal place of business of the Company in Hong Kong is at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong.

(e) The English text of this circular prevails over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong up to and including Monday, 19 January 2009:

(a) the memorandum of association and bye-laws of the Company;

(b) the Underwriting Agreement;

(c) the Undertaking Letter;

(d) the letter of consent referred to in the paragraph headed "Expert and consent" above;

(e) the accountants' report on pro forma financial information relating to unaudited adjusted consolidated net tangible assets value;

(f) the material contracts referred to in the section headed "Material Contracts" of this appendix;

(g) the annual reports of the Company for the two years ended 31 March 2008;

(h) the interim report of the Company for the six months ended 30 September 2008;

(i) the letter of advice from Menlo Capital, the text of which is set out on pages 28 to 44; and

(j) this circular.

Easyknit Enterprises Holdings Limited
永義實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code : 616)

NOTICE IS HEREBY GIVEN that a special general meeting of Easyknit Enterprises Holdings Limited (the "Company") will be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on Wednesday, 24 December 2008 at 9:30 a.m. (or as soon thereafter as the special general meeting of Easyknit International Holdings Limited to be held at 9:00 a.m. on the same day and at the same place shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolution:-

ORDINARY RESOLUTION

"**THAT** conditional on the obligations of Get Nice Securities Limited ("Underwriter") and the Company under the underwriting agreement dated 5 November 2008 ("Underwriting Agreement") (a copy of the Underwriting Agreement has been produced to this meeting and marked "A" and initialled by the chairman of the meeting for the purpose of identification) becoming unconditional; and the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Rights Shares (as defined below) in their nil-paid and fully-paid forms:-

(i) the Underwriting Agreement be and is hereby confirmed, approved and ratified;

(ii) the allotment and issue of 667,499,000 new shares ("Rights Shares") pursuant to an offer by way of rights to holders of shares in the Company at HK$0.15 per Rights Share ("Rights Issue") in the proportion of ten Rights Shares for every share held by holders of shares ("Shareholders") whose names appear on the register of members of the Company on 24 December 2008 (or such other date as the Underwriter may agree in writing with the Company) ("Record Date") other than those Shareholders whose addresses on the register of members of the Company are outside Hong Kong on the Record Date and whom the directors of the Company, after making relevant enquiry, consider it necessary or expedient not to offer the Rights Issue to such Shareholders 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 ("Non-Qualifying Shareholders"), on and subject to the terms and conditions set out in the circular to the Shareholders dated 8 December 2008 ("Circular") and on such other terms and conditions as may be determined by the directors of the Company be and is hereby approved provided that (a) fractional entitlements shall not be issued but shall be aggregated and sold, if a premium (net of expenses) could be

* *For identification purpose only*

obtained for the benefit of the Company; (b) no Rights Shares shall be offered to the Non-Qualifying Shareholders and the Rights Shares which would otherwise have been offered to them shall be sold, if a premium (net of expenses) is obtained and to the extent that the net proceeds of such sale (after deducting the expenses of sale) be distributed to the Non-Qualifying Shareholders pro rata to their holding of shares provided further that individual amounts of HK$100 or less shall be retained for the benefit of the Company; and (c) to the extent that the Rights Shares referred to in (a) and (b) above are not sold as aforesaid, such Rights Shares together with any Rights Shares provisionally allotted but not accepted shall be offered for application under forms of application for excess Rights Shares; and

(iii) the directors of the Company be and are hereby authorised to allot and issue the Rights Shares on terms as set out in the Circular and to do all such acts and things, to sign and execute all such further documents and to take such steps as the directors of the Company may in their absolute discretion consider necessary, appropriate, desirable, or expedient to give effect to or in connection with the Rights Issue and the Underwriting Agreement or any of the transactions contemplated thereunder."

By order of the Board of
EASYKNIT ENTERPRISES HOLDINGS LIMITED
Kwong Jimmy Cheung Tim
Chairman and Chief Executive Officer

Hong Kong, 8 December, 2008

Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be shareholder of the Company.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company's principal place of business in Hong Kong at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than 48 hours before the time for holding the meeting or the adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.

4. Delivery of an instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting or upon the poll concerned and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.

6. A form of proxy for use at the meeting is enclosed.