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

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

**If you have sold or transferred** all your shares in Easyknit Enterprises Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**EASYKNIT ENTERPRISES HOLDINGS LIMITED**

**永義實業集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 616)**

**MAJOR TRANSACTION**

**IN RELATION TO THE PROPOSED ACQUISITION OF  
THE ENTIRE ISSUED SHARE CAPITAL OF  
CHANCEMORE LIMITED  
(THE ACQUIRER OF THE MATHESON STREET PROPERTY),  
AND CLEVER WISE HOLDINGS LIMITED  
(THE ACQUIRER OF THE JOHNSTON ROAD PROPERTY)**

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A letter from the board of directors of Easyknit Enterprises Holdings Limited is set out on pages 5 to 14 of this circular.

A notice convening a special general meeting of Easyknit Enterprises Holdings Limited (“SGM”) to be held on 12 August 2009 at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 10:00 a.m. is set out on pages 92 to 94 of this circular. Whether or not shareholders are able to attend the SGM, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon 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 but in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the SGM or any adjournment thereof, should they so wish.

\* *For identification only*

24 July 2009

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## DEFINITIONS

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

“associates”	the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Chancemore”	Chancemore Limited, a company incorporated under the laws of the British Virgin Islands and which is wholly owned by the Seller
“Chancemore Acquisition”	the proposed acquisition of the Chancemore Sale Share and the Chancemore Shareholder’s Loan by Power Bright subject to the terms and conditions of the Chancemore Agreement
“Chancemore Agreement”	an agreement dated 29 June 2009 entered into between Power Bright and the Seller for the sale and purchase of the Chancemore Sale Share and the assignment of the Chancemore Shareholder’s Loan
“Chancemore Audited Completion Accounts”	the audited profit and loss account of Chancemore for the period from the date of incorporation of Chancemore up to the Chancemore Completion Date and the audited balance sheet of Chancemore as at the Chancemore Completion Date
“Chancemore Completion”	completion of the sale and purchase of the Chancemore Sale Share and the assignment of the Chancemore Shareholder’s Loan pursuant to the Chancemore Agreement
“Chancemore Completion Date”	the date fixed for completion of the Chancemore Agreement, which is the third business day after satisfaction of the conditions precedent to the Chancemore Agreement, or such other date as the parties may agree in writing
“Chancemore Management Accounts”	the unaudited profit and loss account of Chancemore for the period from the date of incorporation of Chancemore up to 29 June 2009 and the unaudited balance sheet of Chancemore as at 29 June 2009
“Chancemore Option”	the option granted by the Seller to Power Bright to require the Seller to purchase the Chancemore Sale Share from Power Bright described in the section headed “Chancemore Option” in this circular
“Chancemore Sale Share”	one ordinary share of US\$1 in the share capital of Chancemore, which has been issued and fully paid up and which represents the entire issued share capital of Chancemore

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## DEFINITIONS

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“Chancemore Shareholder’s Loan”	the interest free shareholder’s loan outstanding and owing as at Chancemore Completion by Chancemore to the Seller, which amounts to HK\$8,053,192 as at the date of the Chancemore Agreement
“Clever Wise”	Clever Wise Holdings Limited, a company incorporated under the laws of the British Virgin Islands and which is wholly owned by the Seller
“Clever Wise Acquisition”	the proposed acquisition of the Clever Wise Sale Share and the Clever Wise Shareholder’s Loan by Power Bright subject to the terms and conditions of the Clever Wise Agreement
“Clever Wise Agreement”	an agreement dated 29 June 2009 entered into between Power Bright and the Seller for the sale and purchase of the Clever Wise Sale Share and the assignment of the Clever Wise Shareholder’s Loan
“Clever Wise Audited Completion Accounts”	the audited profit and loss account of Clever Wise for the period from the date of incorporation of Clever Wise up to the Clever Wise Completion Date and the audited balance sheet of Clever Wise as at the Clever Wise Completion Date
“Clever Wise Completion”	completion of the sale and purchase of the Clever Wise Sale Share and the assignment of the Clever Wise Shareholder’s Loan pursuant to the Clever Wise Agreement
“Clever Wise Completion Date”	the date fixed for completion of the Clever Wise Agreement, which is the third business day after satisfaction of the conditions precedent to the Clever Wise Agreement, or such other date as the parties may agree in writing
“Clever Wise Management Accounts”	the unaudited profit and loss account of Clever Wise for the period from the date of incorporation of Clever Wise up to 29 June 2009 and the unaudited balance sheet of Clever Wise as at 29 June 2009
“Clever Wise Option”	the option granted by the Seller to Power Bright to require the Seller to purchase the Clever Wise Sale Share from Power Bright described in the section headed “Clever Wise Option” in this circular
“Clever Wise Sale Share”	one ordinary share of US\$1 in the share capital of Clever Wise, which has been issued and fully paid up and which represents the entire issued share capital of Clever Wise

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## DEFINITIONS

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“Clever Wise Shareholder’s Loan”	the interest free shareholder’s loan outstanding and owing as at Clever Wise Completion by Clever Wise to the Seller, which amounts to HK\$5,699,992 as at the date of the Clever Wise Agreement
“Company”	Easyknit Enterprises Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Convertible Note”	the convertible note issued by the Company on 12 March 2008 with a principal amount of HK\$37,650,000 at 1% per annum, payable semi-annually in arrears to Mr. Chen Tien Tui the net proceeds of which were originally earmarked for financing the Huzhou Project
“Director(s)”	director(s) of the Company
“Enlarged Group”	the Group, Chancemore and Clever Wise
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huzhou Project”	the development and construction of garment, bleaching, dyeing, knitting manufacturing operations and a waste water treatment plant on the land of about 632 mu in area located at the west of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the PRC and the south of Hongtang Harbour of the PRC
“Independent Third Party”	a third party independent of the Company and of connected persons (as defined in the Listing Rules) of the Company
“Johnston Road Property”	Ground Floor, No.148 Johnston Road, Hong Kong, which is the subject of the Johnston Road Property Purchase Agreement
“Johnston Road Property Purchase Agreement”	the formal agreement for sale and purchase dated 19 June 2009 entered into between Clever Wise and the Johnston Road Property Vendor in relation to the sale and purchase of the Johnston Road Property
“Johnston Road Property Vendor”	Max Palace Corporation Limited (沛軒有限公司), the vendor under the Johnston Road Property Purchase Agreement

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## DEFINITIONS

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“Latest Practicable Date”	22 July 2009, 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
“Matheson Street Property”	Ground Floor and Cockloft Floor, No.13 Matheson Street, Hong Kong, which is the subject of the Provisional Matheson Street Property Purchase Agreement
“Matheson Street Property Vendor”	Max Up Investments Limited (領雄投資有限公司), the vendor under the Provisional Matheson Street Property Purchase Agreement.
“Power Bright”	Power Bright Investments Limited, a company incorporated under the laws of the British Virgin Islands and a wholly owned subsidiary of the Company
“PRC”	People’s Republic of China
“Provisional Matheson Street Property Purchase Agreement”	the provisional agreement for sale and purchase dated 13 May 2009 entered into between Chancemore and the Matheson Street Property Vendor in relation to the sale and purchase of the Matheson Street Property
“Rights Issue”	the 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 one existing Share held (details of which were set out in the Company’s prospectus dated 29 December 2008)
“Seller”	Li Ming Hung
“SGM”	the special general meeting of the Company to be convened on 12 August 2009 at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 10:00 a.m.
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	percentage or per centum

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LETTER FROM THE BOARD

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**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 and Chief Executive Officer)*  
Ms. Lui Yuk Chu *(Deputy Chairman)*

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Non-executive Director:*

Mr. Tse Wing Chiu, Ricky

*Head Office and Principal Place of Business  
in Hong Kong:*

*Independent Non-executive Directors:*

Mr. Kan Ka Hon  
Mr. Lau Sin Ming  
Mr. Foo Tak Ching

7th Floor  
Hong Kong Spinners Building  
Phase 6, 481-483 Castle Peak Road  
Cheung Sha Wan  
Kowloon, Hong Kong

24 July 2009

*To the Shareholders,*

Dear Sir or Madam,

**MAJOR TRANSACTION**

**IN RELATION TO THE PROPOSED ACQUISITION OF  
THE ENTIRE ISSUED SHARE CAPITAL OF  
CHANCEMORE LIMITED  
(THE ACQUIRER OF THE MATHESON STREET PROPERTY),  
AND CLEVER WISE HOLDINGS LIMITED  
(THE ACQUIRER OF THE JOHNSTON ROAD PROPERTY)**

**INTRODUCTION**

The Company made an announcement on 3 July 2009 in respect of the Chancemore Acquisition and the Clever Wise Acquisition, further details of which are set out in this circular.

*\* For identification only*

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## LETTER FROM THE BOARD

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The purpose of this circular is to set out further details of the Chancemore Acquisition and the Clever Wise Acquisition and a notice convening the SGM at which a resolution will be proposed to consider and, if thought fit, approve the Chancemore Acquisition and the Clever Wise Acquisition.

### THE CHANCEMORE AGREEMENT

#### Date

29 June 2009

#### Parties

- i) the Seller
- ii) Power Bright, as the buyer

To the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, the Seller is an Independent Third Party.

#### Assets to be Acquired

Pursuant to the Chancemore Agreement, amongst other things, Power Bright has conditionally agreed to acquire from the Seller the Chancemore Sale Share, representing the entire issued share capital of Chancemore, and the Chancemore Shareholder's Loan.

#### Conditions Precedent

Completion of the Chancemore Agreement is conditional upon:-

- (a) the Chancemore Agreement and the transactions contemplated therein being approved by the Shareholders of the Company at the SGM in accordance with the Listing Rules; and
- (b) a title investigation on the Matheson Street Property to the satisfaction of Power Bright.

If the above conditions have not been fulfilled or waived on or before 5:00 p.m. on 11 September 2009 (or such other date as the Seller and Power Bright may agree in writing), Power Bright may elect to terminate the Chancemore Agreement whereupon the Seller shall forthwith return the deposit of HK\$8,053,200 to Power Bright. If condition (a) above has been fulfilled but condition (b) above has not been fulfilled, Power Bright may elect to proceed to Chancemore Completion without prejudice to its rights to continue to conduct a title investigation on the Matheson Street Property after the Chancemore Completion in accordance with the terms of the Chancemore Agreement.

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## LETTER FROM THE BOARD

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### **Consideration**

The consideration for the Chancemore Sale Share and the Chancemore Shareholder's Loan is HK\$8,053,200 (apportioned as to HK\$8 for the Chancemore Sale Share and HK\$8,053,192 for the Chancemore Shareholder's Loan). A deposit of HK\$8,053,200 was paid by Power Bright to the Seller on signing of the Chancemore Agreement which shall be treated as the consideration payable under the Chancemore Agreement on Chancemore Completion.

The consideration is subject to adjustment after the Chancemore Completion. If the net liability of Chancemore as shown in the Chancemore Audited Completion Accounts is more than that as disclosed in the Chancemore Management Accounts, the consideration shall be adjusted on a dollar for dollar basis downwards but not upwards and the Seller must refund the excess to Power Bright.

The consideration of HK\$8,053,200 was determined based on the deposit paid by Chancemore under the Provisional Matheson Street Property Purchase Agreement and after arm's length negotiations between the Power Bright and the Seller.

### **Source of Funding**

Reference is made to the Company's announcement dated 24 February 2009. The net proceeds from the Rights Issue were approximately HK\$98,000,000, of which approximately HK\$58,000,000 was originally earmarked for the Huzhou Project and approximately HK\$40,000,000 was to be used as working capital. The Group will fund the Chancemore Acquisition from part of the proceeds from the Rights Issue originally earmarked for the Huzhou Project.

### **Completion**

The Chancemore Completion will take place on the third business day after satisfaction of the conditions precedent to which it is subject. On the Chancemore Completion, the Seller, Power Bright and Chancemore will enter into an assignment in respect of the Chancemore Shareholder's Loan and the Seller will execute a deed of indemnity in favour of Power Bright and Chancemore in relation to, among other things, taxation falling on Chancemore prior to the Chancemore Completion.

### **Acquisition of the Matheson Street Property by Chancemore**

On 13 May 2009, Chancemore entered into a provisional sale and purchase agreement with the Matheson Street Property Vendor for the acquisition of the Matheson Street Property. Completion of the Provisional Matheson Street Property Purchase Agreement is expected to be on or before 25 September 2009. The total consideration for the acquisition of the Matheson Street Property under the Provisional Matheson Street Property Purchase Agreement is HK\$53,688,000.

Chancemore has paid a total of HK\$8,053,200 as deposit under the Provisional Matheson Street Property Purchase Agreement (representing approximately 15% of the total consideration under the Provisional Matheson Street Property Purchase Agreement) to the Matheson Street Property Vendor. Upon completion of the Provisional Matheson Street Property Purchase Agreement which is expected to be on or before 25 September 2009, Chancemore will have to pay the balance of the consideration

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## LETTER FROM THE BOARD

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in the sum of HK\$45,634,800 to the Matheson Street Property Vendor. Upon completion of the Chancemore Agreement, Chancemore will become a wholly-owned subsidiary of the Company. If Chancemore proceeds to complete the acquisition of the Matheson Street Property afterwards, the Group will be responsible for paying the balance of the purchase price for the Matheson Street Property to the Matheson Street Property Vendor upon completion of the Provisional Matheson Street Property Purchase Agreement. The Group will fund the balance of the purchase price for the acquisition of the Matheson Street Property from part of the proceeds from the Rights Issue originally earmarked for the Huzhou Project.

To the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, the Matheson Street Property Vendor and its ultimate beneficial owner are Independent Third Parties.

### **Chancemore Option**

Pursuant to the Chancemore Agreement, the Seller granted to Power Bright the right to require the Seller to purchase from Power Bright the Chancemore Sale Share and the Chancemore Shareholder's Loan if completion of purchase of the Matheson Street Property does not take place on 25 September 2009 for whatever reason (including but not limited to Power Bright not being satisfied with the title investigation of the Matheson Street Property) (or such later date as the parties may agree), at a consideration equivalent to the aggregate of (i) HK\$8,053,200 (subject to adjustment under the Chancemore Agreement), (ii) HK\$45,634,800 being the balance of the consideration payable under the Provisional Matheson Street Property Purchase Agreement if it has been paid by Power Bright or Chancemore, and (iii) any other sum paid by Power Bright and/or Chancemore for the purchase of the Matheson Street Property. The Chancemore Option may be exercised by Power Bright by notice in writing to the Seller any time on or before 30 September 2009.

The consideration payable on exercise of the Chancemore Option will be at the net book value of the Chancemore Sale Share and Chancemore Shareholder's Loan. If the Board exercises the Chancemore Option, the net proceeds will be used for general working capital.

### **Default**

If Power Bright fails to complete the purchase of the Chancemore Sale Share in accordance with the terms and conditions for Chancemore Completion contained in the Chancemore Agreement (other than due to the conditions precedent not being fulfilled or satisfied), the Seller may forthwith determine the Chancemore Agreement by giving notice of termination in writing to Power Bright and the Seller shall be entitled to forfeit the deposit of HK\$8,053,200 paid under the Chancemore Agreement as and for liquidated damages.

### **THE CLEVER WISE AGREEMENT**

#### **Date**

29 June 2009

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## LETTER FROM THE BOARD

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### Parties

- i) the Seller
- ii) Power Bright, as the buyer

To the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, the Seller is an Independent Third Party.

### Assets to be Acquired

Pursuant to the Clever Wise Agreement, amongst other things, Power Bright has conditionally agreed to acquire from the Seller the Clever Wise Sale Share, representing the entire issued share capital of Clever Wise, and the Clever Wise Shareholder's Loan.

### Conditions Precedent

Completion of the Clever Wise Agreement is conditional upon:

- (a) the Clever Wise Agreement and the transactions contemplated therein being approved by the Shareholders of the Company at the SGM in accordance with the Listing Rules; and
- (b) a title investigation on the Johnston Road Property to the satisfaction of Power Bright.

If the above conditions have not been fulfilled or waived on or before 5:00 p.m. on 11 September 2009 (or such other date as the Seller and Power Bright may agree in writing), Power Bright may elect to terminate the Clever Wise Agreement whereupon the Seller shall forthwith return the deposit of HK\$5,700,000 to Power Bright. If condition (a) above has been fulfilled but condition (b) above has not been fulfilled, Power Bright may elect to proceed to Clever Wise Completion without prejudice to its rights to continue to conduct a title investigation on the Johnston Road Property after the Clever Wise Completion in accordance with the terms of the Clever Wise Agreement.

### Consideration

The consideration for the Clever Wise Sale Share and the Clever Wise Shareholder's Loan is HK\$5,700,000 (apportioned as to HK\$8 for the Clever Wise Sale Share and HK\$5,699,992 for the Clever Wise Shareholder's Loan). A deposit of HK\$5,700,000 was paid by Power Bright to the Seller on signing of the Clever Wise Agreement which shall be treated as the consideration payable under the Clever Wise Agreement on Clever Wise Completion.

The consideration is subject to adjustment after Clever Wise Completion. If the net liability of Clever Wise as shown in the Clever Wise Audited Completion Accounts is more than that as disclosed in the Clever Wise Management Accounts, the consideration shall be adjusted on a dollar for dollar basis downwards but not upwards and the Seller must refund the excess to Power Bright.

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## LETTER FROM THE BOARD

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The consideration of HK\$5,700,000 was determined based on the deposit paid by Clever Wise under the Johnston Road Property Purchase Agreement and after arm's length negotiations between the Power Bright and the Seller.

### **Source of Funding**

The net proceeds from the Convertible Note were approximately HK\$37,150,000, which was originally earmarked for the Huzhou Project. The Group will fund the Clever Wise Acquisition from the proceeds from the Convertible Note.

### **Completion**

The Clever Wise Completion will take place on the third business day after satisfaction of the conditions precedent to which it is subject. On the Clever Wise Completion, the Seller, Power Bright and Clever Wise will enter into an assignment in respect of the Clever Wise Shareholder's Loan. The Seller will execute a deed of indemnity in favour of Power Bright and Clever Wise in relation to, among other things, taxation falling on Clever Wise prior to Clever Wise Completion.

### **Acquisition of the Johnston Road Property by Clever Wise**

Clever Wise entered into a provisional sale and purchase agreement on 5 June 2009 and the Johnston Road Property Purchase Agreement on 19 June 2009 with the Johnston Road Property Vendor for the acquisition of the Johnston Road Property. The completion of the Johnston Road Property Purchase Agreement is expected to be on or before 21 September 2009. The total consideration for the acquisition of the Johnston Road Property under the Johnston Road Property Purchase Agreement is HK\$38,000,000.

Clever Wise has paid a total of HK\$5,700,000 as deposit under the Johnston Road Property Purchase Agreement (representing approximately 15% of the total consideration under the Johnston Road Property Purchase Agreement) to the Johnston Road Property Vendor. Upon completion of the Johnston Road Property Purchase Agreement which is expected to be on or before 21 September 2009, Clever Wise will have to pay the balance of the consideration in the sum of HK\$32,300,000 to the Johnston Road Property Vendor. Upon completion of the Clever Wise Agreement, Clever Wise will become a wholly-owned subsidiary of the Company. If Clever Wise proceeds to complete the acquisition of the Johnston Road Property afterwards, the Group will be responsible for paying the balance of the purchase price for the Johnston Road Property to the Johnston Road Property Vendor upon completion of the Johnston Road Property Purchase Agreement. As to the balance of the purchase price for the acquisition of the Johnston Road Property, the Group will pay HK\$31,450,000 from the remaining proceeds from the Convertible Note and will pay HK\$850,000 from part of the proceeds from the Rights Issue originally earmarked for the Huzhou Project.

The Johnston Road Property is subject to a tenancy agreement in relation to which the tenant has paid HK\$210,000.00 as rental deposit. Under the Johnston Road Property Purchase Agreement, Clever Wise is required to execute a deed of indemnity in favour of the Johnston Road Property Vendor

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## LETTER FROM THE BOARD

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whereby Clever Wise shall refund the rental deposit to the tenant of the Johnston Road Property (if and when the same shall become payable) and that Clever Wise will keep the Johnston Road Property Vendor fully indemnified from all claims, loss and damages or any claim or proceedings in relation to such rental deposit.

To the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, the Johnston Road Property Vendor and its ultimate beneficial owner are Independent Third Parties.

### **Clever Wise Option**

Pursuant to the Clever Wise Agreement, the Seller granted to Power Bright the right to require the Seller to purchase from Power Bright the Clever Wise Sale Share and the Clever Wise Shareholder's Loan if completion of purchase of the Johnston Road Property does not take place on 21 September 2009 for whatever reason (including but not limited to Power Bright not being satisfied with the title investigation of the Johnston Road Property) (or such later date as the parties may agree), at a consideration equivalent to the aggregate of (i) HK\$5,700,000 (subject to adjustment under the Clever Wise Agreement), (ii) HK\$32,300,000 being the balance of the consideration payable under the Johnston Road Property Purchase Agreement if it has been paid by Power Bright or Clever Wise, and (iii) any other sum paid by Power Bright and/or Clever Wise for the purchase of the Johnston Road Property. The Clever Wise Option may be exercised by Power Bright by notice in writing to the Seller any time on or before 30 September 2009.

The consideration payable on exercise of the Clever Wise Option will be at the net book value of the Clever Wise Sale Share and Clever Wise Shareholder's Loan. If the Board exercises the Clever Wise Option, the net proceeds will be used for general working capital.

### **Default**

If Power Bright fails to complete the purchase of the Clever Wise Sale Share in accordance with the terms and conditions for Clever Wise Completion contained in the Clever Wise Agreement (other than due to the conditions precedent not being fulfilled or satisfied), the Seller may forthwith determine the Clever Wise Agreement by giving notice of termination in writing to Power Bright and the Seller shall be entitled to forfeit the deposit of HK\$5,700,000 paid under the Clever Wise Agreement as and for liquidated damages.

### **REASONS FOR AND BENEFITS OF THE CHANCEMORE ACQUISITION AND CLEVER WISE ACQUISITION**

The Group's principal businesses are in knitting, bleaching and dyeing.

The acquisition of the entire issued share capital of Chancemore and Clever Wise respectively will enable the Group to acquire the Matheson Street Property and the Johnston Road Property. The Chancemore Acquisition and the Clever Wise Acquisition will enable the Group to extend its business activities to property investments. The acquisition of the Matheson Street Property and the Johnston Road Property will enable the Group to build up its property portfolio.

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## LETTER FROM THE BOARD

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The exercise of the Chancemore Option and the Clever Wise Option (if the Board considers appropriate) will enable Power Bright to be put in its original position prior to the entering into of the Chancemore Agreement and the Clever Wise Agreement respectively if completion of purchase of the Matheson Street Property and the Johnston Road Property do not take place on 25 September 2009 and 21 September 2009.

Based on the valuation report prepared by Vigers Appraisal and Consulting Limited and set out in Appendix V of this circular, the market value of the Matheson Street Property is estimated to be approximately HK\$56,000,000 as at 30 June 2009 and that of the Johnston Road Property is estimated to be approximately HK\$39,000,000 as at 30 June 2009.

The Matheson Street Property is subject to a tenancy agreement which expires on 30 April 2010 at a rent of HK\$170,000 per month (exclusive of government rates, management fees and all other outgoings). The Johnston Road Property is subject to a tenancy agreement which expires on 31 March 2010 with an option to renew for a further term of one year at a rent of HK\$105,000 per month (exclusive of rates, management fees and government rent).

### **EFFECT ON EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP**

As rental income will be generated from the Matheson Road Property and the Johnston Road Property, the acquisition of Chancemore, Clever Wise, the Matheson Road Property and the Johnston Road Property is expected to lead to a small increment on the Group's earnings of approximately HK\$1,700,000 for the year ending 31 March 2010 and such earnings will decrease as the tenancies expire.

The exercise of the Chancemore Option and the Clever Wise Option will have no material effect on the earnings of the Company and no material effect on the assets and liabilities of the Company.

The Directors are of the view that the terms of the Chancemore Agreement and the Clever Wise Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

### **Information on Chancemore**

The Group was told by the Seller that Chancemore was incorporated on 11 March 2009 and has never carried on any business save for entering into the Provisional Matheson Street Property Purchase Agreement. Therefore Chancemore has not received any income nor incurred any material expenses. Based on the Chancemore Management Accounts, the unaudited net asset value of Chancemore as at 29 June 2009 was HK\$8.

### **Information on Clever Wise**

The Group was told by the Seller that Clever Wise was incorporated on 19 May 2009 and has never carried on any business save for entering into a provisional sale and purchase agreement with

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## LETTER FROM THE BOARD

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the Johnston Road Property Vendor for the acquisition of the Johnston Road Property and the Johnston Road Property Purchase Agreement. Therefore Clever Wise has not received any income nor incurred any material expenses. Based on the Clever Wise Management Accounts, the unaudited net asset value of Clever Wise as at 29 June 2009 was HK\$8.

### IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios (as defined in the Listing Rules) of the Chancemore Acquisition and the Clever Wise Acquisition, when aggregated, exceed 25% but are less than 100%, the Chancemore Acquisition and the Clever Wise Acquisition constitute a major transaction under Rule 14.06(3) of the Listing Rules, and are therefore subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules. As no Shareholder has any material interest in the Chancemore Acquisition and the Clever Wise Acquisition, when aggregated, no Shareholder is required to abstain from voting at the SGM in respect of the resolution to approve the Chancemore Acquisition and the Clever Wise Acquisition.

If exercise of the Chancemore Option and the Clever Wise Option is approved in advance by the Shareholders at the SGM, the Company will only issue an announcement pursuant to the Listing Rules if and when the Chancemore Option and/or the Clever Wise Option is exercised.

In addition, on exercise of the Chancemore Option and the Clever Wise Option (if they are exercised) the Company will also comply with the requirements under Rule 14.76(2) and 14.77 of the Listing Rules.

### SGM

Notice of the SGM is set out on pages 92 to 94 of this circular. A form of proxy for use at the SGM is enclosed. At the SGM, a resolution will be proposed, for Shareholders to consider and, if thought fit, to approve the Chancemore Agreement (including the Chancemore Acquisition, the acquisition of the Matheson Street Property by Chancemore and the exercise of the Chancemore Option if the Board considers appropriate) and the Clever Wise Agreement (including the Clever Wise Acquisition, the acquisition of the Johnston Road Property by Clever Wise and the exercise of the Clever Wise Option if and when the Board considers appropriate).

Whether or not Shareholders are able to attend the SGM, Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon 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 but in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the SGM should Shareholders so wish.

### RECOMMENDATION

The Directors are of the opinion that the Chancemore Acquisition, the Clever Wise Acquisition, and the acquisition of the Matheson Street Property and Johnston Road Property are fair and

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## LETTER FROM THE BOARD

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reasonable and in the interests of the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Chancemore Agreement (including the Chancemore Acquisition, the acquisition of the Matheson Street Property by Chancemore and the exercise of the Chancemore Option if the Board considers appropriate) and the Clever Wise Agreement (including the Clever Wise Acquisition, the acquisition of the Johnston Road Property by Clever Wise and the exercise of the Clever Wise Option if the Board considers appropriate).

### ADDITIONAL INFORMATION

Your attention is also drawn to the notice of the SGM and the additional information set out in the appendices to this circular.

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

## 1. 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 2009 as published in the 2007/2008 and 2008/2009 annual reports of the Company. No qualified opinions were issued by the Company's auditor for any of the three years ended 31 March 2009.

**CONSOLIDATED INCOME STATEMENT**

*For the year ended 31 March*

	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	59,960	74,923	75,964
Cost of sales and services	<u>(61,581)</u>	<u>(65,721)</u>	<u>(74,717)</u>
Gross (loss) profit	(1,621)	9,202	1,247
Other income	1,759	1,742	2,667
Other expenses	(2,263)	(10,702)	(608)
Distribution costs	(568)	(384)	(424)
Administrative expenses	(15,994)	(15,063)	(15,084)
(Allowance for) write back of allowance for doubtful debts	(3,793)	494	2,446
Gain arising from fair value change of investments held for trading	344	—	—
Impairment loss recognised in respect of property, plant and equipment	(23,594)	—	—
Finance costs	<u>(475)</u>	<u>(268)</u>	<u>(153)</u>
Loss before taxation	(46,205)	(14,979)	(9,909)
Taxation	<u>(1,252)</u>	<u>(2,832)</u>	<u>(1,572)</u>
Loss for the year	<u>(47,457)</u>	<u>(17,811)</u>	<u>(11,481)</u>

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

	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	106,999	102,831	66,836
Prepaid lease payments	40,921	40,667	31,642
Deposits for acquisition of property, plant and equipment	<u>38</u>	<u>17,725</u>	<u>16,125</u>
	<u>147,958</u>	<u>161,223</u>	<u>114,603</u>
<b>Current assets</b>			
Inventories	6,008	5,818	15,445
Trade and other receivables	64,346	25,698	44,783
Prepaid lease payments	881	857	656
Investments held for trading	4,056	—	—
Pledged bank deposits	10,000	—	—
Bank balances and cash	<u>154,870</u>	<u>139,753</u>	<u>29,392</u>
	<u>240,161</u>	<u>172,126</u>	<u>90,276</u>
<b>Current liabilities</b>			
Trade and other payables	23,732	26,000	24,453
Bills payable	1,739	1,818	4,146
Bank loans	—	—	6,038
Convertible note	—	33,750	—
Tax payable	<u>6,068</u>	<u>4,816</u>	<u>1,608</u>
	<u>31,539</u>	<u>66,384</u>	<u>36,245</u>
<b>Net current assets</b>	<u>208,622</u>	<u>105,742</u>	<u>54,031</u>
<b>Net assets</b>	<u><u>356,580</u></u>	<u><u>266,965</u></u>	<u><u>168,634</u></u>
<b>Capital and reserves</b>			
Share capital	7,342	58,906	39,271
Reserves	<u>349,238</u>	<u>208,059</u>	<u>129,363</u>
	<u><u>356,580</u></u>	<u><u>266,965</u></u>	<u><u>168,634</u></u>

## 2. 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 71 of the annual report of the Company for the year ended 31 March 2009.

**CONSOLIDATED INCOME STATEMENT**

*For the year ended 31 March 2009*

	<i>NOTES</i>	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
Turnover	7	59,960	74,923
Cost of sales and services		<u>(61,581)</u>	<u>(65,721)</u>
Gross (loss) profit		(1,621)	9,202
Other income		1,759	1,742
Other expenses		(2,263)	(10,702)
Distribution costs		(568)	(384)
Administrative expenses		(15,994)	(15,063)
(Allowance for) write back of allowance for doubtful debts		(3,793)	494
Gain arising from fair value change of investments held for trading		344	—
Impairment loss recognised in respect of property, plant and equipment		(23,594)	—
Finance costs	9	<u>(475)</u>	<u>(268)</u>
Loss before taxation	10	(46,205)	(14,979)
Taxation	12	<u>(1,252)</u>	<u>(2,832)</u>
Loss for the year		<u>(47,457)</u>	<u>(17,811)</u>
Basic loss per share	13	<u>HK\$(0.22)</u>	<u>HK\$(0.32)</u>

## CONSOLIDATED BALANCE SHEET

At 31 March 2009

	NOTES	2009 HK\$'000	2008 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	15	106,999	102,831
Prepaid lease payments	16	40,921	40,667
Deposits for acquisition of property, plant and equipment		<u>38</u>	<u>17,725</u>
		<u>147,958</u>	<u>161,223</u>
<b>Current assets</b>			
Inventories	17	6,008	5,818
Trade and other receivables	18	64,346	25,698
Prepaid lease payments	16	881	857
Investments held for trading	19	4,056	—
Pledged bank deposits	20	10,000	—
Bank balances and cash	20	<u>154,870</u>	<u>139,753</u>
		<u>240,161</u>	<u>172,126</u>
<b>Current liabilities</b>			
Trade and other payables	21	23,732	26,000
Bills payable	22	1,739	1,818
Convertible note	23	—	33,750
Tax payable		<u>6,068</u>	<u>4,816</u>
		<u>31,539</u>	<u>66,384</u>
<b>Net current assets</b>		<u>208,622</u>	<u>105,742</u>
<b>Net assets</b>		<u>356,580</u>	<u>266,965</u>
<b>Capital and reserves</b>			
Share capital	24	7,342	58,906
Reserves		<u>349,238</u>	<u>208,059</u>
		<u>356,580</u>	<u>266,965</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2009

	Share capital HK\$'000	Share premium HK\$'000	Convertible note equity reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2007	<u>39,271</u>	<u>164,288</u>	<u>—</u>	<u>53,194</u>	<u>714</u>	<u>7,138</u>	<u>(95,971)</u>	<u>168,634</u>
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 23)	—	—	4,128	—	—	—	—	4,128
Rights issue of shares (see note 24(a))	19,635	82,469	—	—	—	—	—	102,104
Transaction costs attributable to issue of new shares	—	(663)	—	—	—	—	—	(663)
At 31 March 2008	<u>58,906</u>	<u>246,094</u>	<u>4,128</u>	<u>53,194</u>	<u>714</u>	<u>17,711</u>	<u>(113,782)</u>	<u>266,965</u>
Exchange differences arising on translation of foreign operations	—	—	—	—	—	3,467	—	3,467
Loss for the year	—	—	—	—	—	—	(47,457)	(47,457)
Total recognised income and expense for the year	—	—	—	—	—	3,467	(47,457)	(43,990)
On conversion of convertible note (see note 23)	7,843	30,449	(4,128)	—	—	—	—	34,164
Reduction of share capital upon capital reorganisation (see note 24(d))	(66,082)	—	—	—	—	—	66,082	—
Rights issue of shares (see note 24(e))	6,675	93,450	—	—	—	—	—	100,125
Transaction costs attributable to issue of new shares	—	(684)	—	—	—	—	—	(684)
At 31 March 2009	<u>7,342</u>	<u>369,309</u>	<u>—</u>	<u>53,194</u>	<u>714</u>	<u>21,178</u>	<u>(95,157)</u>	<u>356,580</u>

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 2009

	2009 HK\$'000	2008 HK\$'000
Operating activities		
Loss before taxation	(46,205)	(14,979)
Adjustments for:		
Interest income	(1,574)	(756)
Interest expense	475	268
Depreciation	3,936	3,614
Amortisation of prepaid lease payments	880	762
Write back of allowance for inventories	(6)	(255)
Allowance for (write back of allowance for) doubtful debts	3,793	(494)
Gain arising from fair value changes of investments held for trading	(344)	—
Impairment loss recognised in respect of property, plant and equipment	23,594	—
Loss on disposal of property, plant and equipment	<u>7</u>	<u>20</u>
Operating cash flows before movements in working capital	(15,444)	(11,820)
(Increase) decrease in inventories	(184)	9,882
(Increase) decrease in trade and other receivables	(24,507)	19,579
Increase in investments held for trading	(3,712)	—
(Decrease) increase in trade and other payables	(2,268)	2,544
Decrease in bills payable	<u>(79)</u>	<u>(2,328)</u>
Net cash (used in) from operating activities	<u>(46,194)</u>	<u>17,857</u>
Investing activities		
Interest received	1,574	756
Purchase of property, plant and equipment	(29,534)	(35,182)
Increase in pledged bank deposits	(10,000)	—
Purchase of land use rights	<u>(136)</u>	<u>(6,828)</u>
Net cash used in investing activities	<u>(38,096)</u>	<u>(41,254)</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financing activities		
Net proceeds from issue of new shares	99,441	101,441
Interest paid	(61)	(40)
Proceeds from issue of convertible note	—	37,650
Bank loans raised	—	2,042
Repayment of bank loans	<u>—</u>	<u>(8,080)</u>
Net cash from financing activities	<u>99,380</u>	<u>133,013</u>
Net increase in cash and cash equivalents	15,090	109,616
Cash and cash equivalents at beginning of the year	139,753	29,392
Effect of foreign exchange rate changes	<u>27</u>	<u>745</u>
Cash and cash equivalents at end of the year, represented by bank balances and cash	<u>154,870</u>	<u>139,753</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 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. The principal activities of the subsidiaries are set out in note 29.

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

In the current year, 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 2008.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKAS 1 (Revised)	Presentation of financial statements <sup>3</sup>
HKAS 23 (Revised)	Borrowing costs <sup>3</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>4</sup>
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation <sup>3</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>4</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate <sup>3</sup>
HKFRS 2 (Amendment)	Vesting conditions and cancellations <sup>3</sup>
HKFRS 3 (Revised)	Business combinations <sup>4</sup>
HKFRS 7 (Amendment)	Improving disclosures about financial instruments <sup>3</sup>
HKFRS 8	Operating segments <sup>3</sup>
HK(IFRIC)-INT 9 & HKAS 39 (Amendments)	Embedded derivatives <sup>5</sup>

HK(IFRIC) - INT 13	Customer loyalty programmes <sup>6</sup>
HK(IFRIC) - INT 15	Agreements for the construction of real estate <sup>3</sup>
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation <sup>7</sup>
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners <sup>4</sup>
HK(IFRIC) - INT 18	Transfers of assets from customers <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>5</sup> Effective for annual periods ending on or after 30 June 2009.

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2008.

<sup>7</sup> Effective for annual periods beginning on or after 1 October 2008.

<sup>8</sup> Effective for transfers on or after 1 July 2009.

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 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group'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 on initial recognition.

Dividend income from investments including investments held for trading is recognised when the shareholders' rights to receive payment have been established.

### **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 carried at cost less 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### **Financial assets**

The Group's financial assets are classified into two categories including investments held for trading and 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.

#### *Investments held for trading*

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future; or it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument.

Investments held for trading are measured at subsequent reporting dates at fair value, where securities are held for trading purposes, gains and losses arising from changes in fair value are recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

#### *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, pledged bank deposits and bank balances and cash) 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, other than investments held for trading, 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 carried at amortised cost, 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 loss 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 to the net carrying amount on initial recognition.

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 at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

**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 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.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the 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 profit or loss 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 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. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### **Estimated impairment of property, plant and equipment**

Determining whether property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating units to which property, plant and equipment have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2009, the carrying amount of property, plant and equipment is HK\$106,999,000 (net of cumulative impairment loss of HK\$23,594,000).

#### **5. 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 23, 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.

## 6. FINANCIAL INSTRUMENTS

## a. Categories of financial instruments

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
<b>Financial assets</b>		
Investments held for trading	4,056	—
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables	64,136	25,078
Pledged bank deposits	10,000	—
Bank balances and cash	<u>154,870</u>	<u>139,753</u>
	<u>233,062</u>	<u>164,831</u>
<b>Financial liabilities</b>		
Amortised costs		
Trade and other payables	8,626	5,910
Bills payable	1,739	1,818
Convertible note	<u>—</u>	<u>33,750</u>
	<u>10,365</u>	<u>41,478</u>

## b. Financial risk management objectives and policies

The Group's major financial instruments include investments held for trading, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bills payable 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 that 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.

(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 7.08% of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst approximately 56% of purchases are denominated in the group entity's functional currency.

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	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Renminbi ("RMB")	2,283	1,967	2,474	2,102
HKD	—	—	4,731	3
USD	1,739	1,818	—	—

#### 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 functional currency of the relevant group entities 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 functional currency of the relevant group entities weaken 5% against the relevant foreign currency. For a 5% strengthening of functional currency of the relevant group entities against the relevant foreign 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	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Decrease (increase) in loss	10	7	237	—	(87)	(91)

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 2009 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 the nature of business, the Group targets on a focused market. As at 31 March 2009, the Group has concentration of credit risk in the trade receivables balance amounting to HK\$44,792,000 (2008: HK\$23,905,000) derived from the five largest customers. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade receivable regularly 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 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 2009, the Group has available unutilised bank loan facilities of HK\$8,261,000 (2008: HK\$8,182,000).

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 tables*

	<b>Effective interest rate</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>Total undiscounted cash flows</b>	<b>Carrying amount</b>
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2009</b>					
Non-derivative financial liabilities					
Trade and other payables	—	8,460	166	8,626	8,626
Bills payable	—	<u>1,739</u>	—	<u>1,739</u>	<u>1,739</u>
		<u>10,199</u>	<u>166</u>	<u>10,365</u>	<u>10,365</u>
<b>2008</b>					
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	<u>—</u>	<u>38,027</u>	<u>38,027</u>	<u>33,750</u>
		<u>7,675</u>	<u>38,080</u>	<u>45,755</u>	<u>41,478</u>

## c. Fair value

The fair value of financial assets and liabilities are determined as follows:

- The fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices.
- The fair value of other 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 as input.

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 at the respective balance sheet dates.

## 7. 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:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bleaching and dyeing		
- sales of goods	55,886	71,240
- service income	<u>3,993</u>	<u>3,651</u>
	59,879	74,891
Knitting services	<u>81</u>	<u>32</u>
	<u><u>59,960</u></u>	<u><u>74,923</u></u>

## 8. 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 2009****(i) Consolidated income statement**

	<b>Bleaching and dyeing</b>	<b>Knitting</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
External	59,879	81	—	59,960
Inter-segment ( <i>note</i> )	<u>3,307</u>	<u>37,835</u>	<u>(41,142)</u>	<u>—</u>
Total	<u>63,186</u>	<u>37,916</u>	<u>(41,142)</u>	<u>59,960</u>
Segment result	<u>(16,522)</u>	<u>(5,045)</u>	<u>—</u>	(21,567)
Interest income				1,574
Gain arising from fair value change of investments held for trading				344
Unallocated corporate expenses				(26,081)
Finance costs				<u>(475)</u>
Loss before taxation				(46,205)
Taxation				<u>(1,252)</u>
Loss for the year				<u>(47,457)</u>

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

## (ii) Consolidated balance sheet

	<b>Bleaching and dyeing</b> <i>HK\$'000</i>	<b>Knitting</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	77,242	9,854	87,096
Unallocated corporate assets			<u>301,023</u>
Consolidated total assets			<u><u>388,119</u></u>
<b>LIABILITIES</b>			
Segment liabilities	11,901	10,001	21,902
Unallocated corporate liabilities			<u>9,637</u>
Consolidated total liabilities			<u><u>31,539</u></u>

## (iii) Other information

	<b>Bleaching and dyeing</b> <i>HK\$'000</i>	<b>Knitting</b> <i>HK\$'000</i>	<b>Unallocated</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Capital additions	59	5	29,626	29,690
Amortisation	442	340	98	880
Depreciation	1,998	1,584	354	3,936
Loss on disposal of property, plant and equipment	7	—	—	7
Impairment loss recognised in respect of property, plant and equipment	8,394	142	15,058	23,594
Allowance for doubtful debts, net of amounts written back of HK\$763,000	<u>3,793</u>	<u>—</u>	<u>—</u>	<u><u>3,793</u></u>

For the year ended 31 March 2008

## (i) Consolidated income statement

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

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

## (ii) Consolidated balance sheet

	<b>Bleaching and dyeing</b> <i>HK\$'000</i>	<b>Knitting</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	58,156	9,747	67,903
Unallocated corporate assets			<u>265,446</u>
Consolidated total assets			<u>333,349</u>
<b>LIABILITIES</b>			
Segment liabilities	13,723	2,753	16,476
Unallocated corporate liabilities			<u>49,908</u>
Consolidated total liabilities			<u>66,384</u>

## (iii) Other information

	<b>Bleaching and dyeing</b>	<b>Knitting</b>	<b>Unallocated</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>20</u>	<u>—</u>	<u>—</u>	<u>20</u>

**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 and over 50% of the Group's purchases were 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:

	<b>Carrying amount of segment assets</b>		<b>Additions to property, plant and equipment</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	13,375	8,470	—	—
PRC	<u>73,721</u>	<u>59,433</u>	<u>29,690</u>	<u>35,182</u>
	<u>87,096</u>	<u>67,903</u>	<u>29,690</u>	<u>35,182</u>

**9. FINANCE COSTS**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	—	40
Imputed interest on convertible note (note 23)	<u>475</u>	<u>228</u>
	<u>475</u>	<u>268</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP****10. LOSS BEFORE TAXATION**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation has been arrived at after charging:		
Directors' remuneration ( <i>note 11(a)</i> )	2,450	3,086
Other staff costs, including retirement benefits costs	<u>7,652</u>	<u>7,870</u>
Total staff costs	<u>10,102</u>	<u>10,956</u>
Amortisation of prepaid lease payments	880	762
Auditor's remuneration	1,123	887
Cost of inventories recognised as an expense	49,371	61,150
Depreciation	3,936	3,614
Loss on disposal of property, plant and equipment	7	20
and after crediting:		
Interest income	1,574	756
Write-back of allowance for inventories	<u>6</u>	<u>255</u>

**11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS****(a) Information regarding directors' emoluments**

Details of emoluments to the directors of the Company for the year ended 31 March 2009 are as follows:

	<b>Kwong Jimmy Cheung Tim</b>	<b>Lui Yuk Chu</b>	<b>Tse Wing Chiu, Ricky</b>	<b>Kan Ka Hon</b>	<b>Lau Sin Ming</b>	<b>Foo Tak Ching</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	—	—	100	100	100	100	400
Other emoluments							
- Salaries and other benefits	<u>838</u>	<u>1,212</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,050</u>
Total directors' emoluments	<u>838</u>	<u>1,212</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>2,450</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

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

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

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

The five highest paid individuals of the Group included two (2008: three) directors whose emoluments were included above. The emoluments of the remaining three (2008: two) highest paid individuals, not being directors, are as follows:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	1,237	1,053
Retirement benefits costs	<u>39</u>	<u>24</u>
	<u><u>1,276</u></u>	<u><u>1,077</u></u>

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

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

## 12. TAXATION

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax	<u>45</u>	<u>—</u>
PRC enterprise income tax		
- current year	1,207	1,467
- underprovision in prior years	<u>—</u>	<u>1,365</u>
	<u>1,207</u>	<u>2,832</u>
	<u>1,252</u>	<u>2,832</u>

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2008: 17.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made in the year ended 31 March 2008 as the Company and its subsidiaries had no assessable profit for that year.

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 Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1 January 2008 onwards.

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

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	<u>(46,205)</u>	<u>(14,979)</u>
Tax credit at the applicable rate of 25% (2008: 33%)	(11,551)	(4,943)
Tax effect of income not taxable for tax purposes	(228)	(176)
Tax effect of expenses not deductible for tax purposes	12,891	6,367
Underprovision in respect of prior years	—	1,365
Tax effect of tax losses not recognised	63	160
Tax effect attributable to concessionary tax rate in the PRC	—	(21)
Tax effect of different tax rates of subsidiaries operating in Hong Kong	(28)	—
Others	<u>105</u>	<u>80</u>
Tax charge for the year	<u>1,252</u>	<u>2,832</u>

At 31 March 2009, deductible temporary differences in respect of tax losses not recognised in the consolidated financial statements were HK\$23,430,000 (2008: HK\$23,177,000). No deferred tax asset has been recognised in respect of such deductible temporary differences due to the unpredictability of future profit streams. Included in the above are tax losses of HK\$5,205,000 (2008: HK\$5,176,000), which can only be carried forward for a maximum period of five years. Other losses may be carried forward indefinitely.

### 13. BASIC LOSS PER SHARE

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

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the purposes of basic loss per share	<u>(47,457)</u>	<u>(17,811)</u>
	<b>2009</b>	<b>2008</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>218,397,298</u>	<u>55,201,356</u>

The denominator for the purposes of calculating basic loss per share for the year ended 31 March 2008 has been adjusted to reflect the consolidation of shares in September 2008 on the basis of 100 shares consolidated into one share and the rights issue in January 2009 on the basis of ten rights shares for every ordinary share.

No diluted loss per share for the year ended 31 March 2009 is presented as there was no potential dilutive shares in issue for the year.

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 were no outstanding share options during that year.

## 14. 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:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Easyknit Global Company Limited	240	160
Grand Modern Investment Limited	<u>—</u>	<u>80</u>
	<u>240</u>	<u>240</u>

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 ended 31 March 2008, 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 year was as follows:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	<u>2,827</u>	<u>3,863</u>

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

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**
**15. PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Construction in progress</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>COST</b>						
At 1 April 2007	—	25,512	2,907	1,480	46,344	76,243
Exchange adjustments	—	—	—	—	4,447	4,447
Additions	—	542	24	575	34,041	35,182
Disposal	—	(39)	(16)	—	—	(55)
	<u>—</u>	<u>(39)</u>	<u>(16)</u>	<u>—</u>	<u>—</u>	<u>(55)</u>
At 31 March 2008	—	26,015	2,915	2,055	84,832	115,817
Exchange adjustments	—	—	—	8	2,013	2,021
Additions	—	32	34	—	29,624	29,690
Transfer	101,144	—	—	—	(101,144)	—
Disposal	—	—	(55)	—	—	(55)
	<u>—</u>	<u>—</u>	<u>(55)</u>	<u>—</u>	<u>—</u>	<u>(55)</u>
<b>At 31 March 2009</b>	<u>101,144</u>	<u>26,047</u>	<u>2,894</u>	<u>2,063</u>	<u>15,325</u>	<u>147,473</u>
<b>DEPRECIATION AND IMPAIRMENT</b>						
At 1 April 2007	—	6,944	1,833	630	—	9,407
Provided for the year	—	2,755	491	368	—	3,614
Eliminated on disposal	—	(22)	(13)	—	—	(35)
	<u>—</u>	<u>(22)</u>	<u>(13)</u>	<u>—</u>	<u>—</u>	<u>(35)</u>
At 31 March 2008	—	9,677	2,311	998	—	12,986
Exchange adjustments	1	—	—	5	—	6
Provided for the year	280	2,903	362	391	—	3,936
Impairment loss recognised in the consolidated income statement	—	7,836	201	232	15,325	23,594
Eliminated on disposal	—	—	(48)	—	—	(48)
	<u>—</u>	<u>—</u>	<u>(48)</u>	<u>—</u>	<u>—</u>	<u>(48)</u>
<b>At 31 March 2009</b>	<u>281</u>	<u>20,416</u>	<u>2,826</u>	<u>1,626</u>	<u>15,325</u>	<u>40,474</u>
<b>CARRYING VALUES</b>						
<b>At 31 March 2009</b>	<u>100,863</u>	<u>5,631</u>	<u>68</u>	<u>437</u>	<u>—</u>	<u>106,999</u>
At 31 March 2008	<u>—</u>	<u>16,338</u>	<u>604</u>	<u>1,057</u>	<u>84,832</u>	<u>102,831</u>

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:

Buildings	Over the shorter of the unexpired term of lease and their estimated useful lives, being 30 years
Plant and machinery	5 to 10 years
Furniture, fixtures and equipment	3 to 10 years
Motor vehicles	5 to 10 years

The Company obtained the shareholders' approval for acquiring land of about 670 mu in the Huzhou City, Zhejiang Province, the PRC and the development of manufacturing operations thereon (collectively the "Huzhou Project"). Details of the Huzhou Project and its further development are set out in the circular of the Company dated 21 February 2005 and various subsequent announcements. During the year, construction of a few blocks of buildings for intended use as factory premises and workers' dormitories was completed and cost of HK\$101,144,000 was transferred from construction in progress to buildings as set out above. However, as set out in the announcement of the Company dated 24 February 2009, the Huzhou Project is no longer viable and therefore the Group stopped further investment in the Huzhou Project. As such,

- (a) the balance of the construction in progress amounting to HK\$15,325,000 was fully impaired and an impairment loss of the same amount is recognised in the consolidated income statement.
- (b) the Group terminated an equipment construction contract with the counterparty. In accordance with the terms of the equipment construction contract, any deposit paid is fully refundable. Accordingly, the deposit paid amounting to RMB15,808,000 which was previously disclosed as a non-current asset under deposits paid for acquisition of property, plant and equipment (being HK\$17,535,000 at 31 March 2008) is disclosed as a current asset at 31 March 2009 under trade and other receivables (being HK\$17,967,000 at 31 March 2009).

In addition, the directors conducted an impairment review in relation to the completed buildings for Huzhou Project and the related prepaid lease payment of HK\$41,802,000 as at 31 March 2009. The directors believe that no impairment is considered necessary as the estimated fair value less costs to sell of the buildings together with the related leasehold land element is higher than the carrying amounts.

Prepaid lease payments in respect of the Huzhou Project are as disclosed in note 16.

During the year, the directors conducted a review of the Group's manufacturing assets used in both bleaching and dyeing and knitting segments, and determined that a number of those assets were impaired, due to the continuous operating loss of the Group. An impairment loss of HK\$7,836,000, HK\$201,000 and HK\$232,000 respectively have been recognised in respect of plant and machinery, furniture, fixtures and equipment and motor vehicles, which are used in the Group's bleaching and dyeing segment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use were 7.625% in relation to the segment's manufacturing assets.

## 16. PREPAID LEASE PAYMENTS

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC		
Medium-term lease	<u>41,802</u>	<u>41,524</u>
Analysed for reporting purposes as:		
Current asset	881	857
Non-current asset	<u>40,921</u>	<u>40,667</u>
	<u>41,802</u>	<u>41,524</u>

At 31 March 2009, the relevant PRC authority has not vacated certain land of carrying amount of HK\$37,285,000 (2008: HK\$37,020,000) for the use by the Group, HK\$21,028,000 (2008: HK\$20,954,000) of which have yet to be granted the land use rights certificates.

## 17. INVENTORIES

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	5,319	5,319
Work-in-progress	591	369
Finished goods	<u>98</u>	<u>130</u>
	<u>6,008</u>	<u>5,818</u>

## 18. TRADE AND OTHER RECEIVABLES

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	50,933	26,112
Less: Allowance for doubtful debts	<u>(5,038)</u>	<u>(1,245)</u>
	45,895	24,867
Prepayment	210	620
Refundable deposit in respect of construction of property, plant and equipment (see note 15)	17,967	—
Other receivable	<u>274</u>	<u>211</u>
	<u><u>64,346</u></u>	<u><u>25,698</u></u>

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:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	15,259	7,616
61 - 90 days	2,905	5,536
Over 90 days	<u>27,731</u>	<u>11,715</u>
	<u><u>45,895</u></u>	<u><u>24,867</u></u>

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\$30,688,000 (2008: HK\$11,822,000) 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:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Over due by 1 to 60 days	8,971	10,004
Over due by 61 to 90 days	5,470	1,139
Over due by over 90 days	<u>16,247</u>	<u>679</u>
	<u><u>30,688</u></u>	<u><u>11,822</u></u>

Movement in the allowance for doubtful debts:

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of the year	1,245	1,763
Amounts written off as uncollectible	—	(24)
Impairment losses recognised on receivables	4,556	—
Amounts recovered during the year	<u>(763)</u>	<u>(494)</u>
Balance at end of the year	<u><u>5,038</u></u>	<u><u>1,245</u></u>

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK\$5,038,000 (2008: HK\$1,245,000) which have either been placed under liquidation or in severe 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.

#### 19. INVESTMENTS HELD FOR TRADING

The investments held for trading comprise equity securities listed in Hong Kong and are stated at fair value which are based on the quoted market bid prices on the Stock Exchange.

#### 20. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

The bank balances and cash held by the Group comprise short-term bank deposits with an original maturity of three months or less, at prevailing market interest rates ranging from 0.01% to 3.775% (2008: 0.01% to 3.33%) per annum.

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. The pledged deposits carry fixed interest rate ranging from 0.25% to 2.5% (2008: nil) per annum. The pledged bank deposits will be released upon expiry of the granted banking facilities.

**21. TRADE AND OTHER PAYABLES**

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

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	7,201	3,016
61 - 90 days	880	1,206
Over 90 days	<u>45</u>	<u>598</u>
Trade payables	8,126	4,820
Accruals	15,106	20,090
Other payables	<u>500</u>	<u>1,090</u>
	<u><u>23,732</u></u>	<u><u>26,000</u></u>

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

**22. BILLS PAYABLE**

At 31 March 2009, the bills payable are aged within 30 days (2008: 120 days).

**23. 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 headed "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.

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The movement of the liability component of the convertible note for the years ended 31 March 2008 and 2009 is set out below:

	<i>HK\$'000</i>
Carrying amount upon issue of the convertible note during the year	33,522
Interest charge	<u>228</u>
Carrying amount at 31 March 2008	33,750
Interest charge	475
Interest paid	(61)
On conversion during the year	<u>(34,164)</u>
Carrying amount at 31 March 2009	<u><u>—</u></u>

## 24. SHARE CAPITAL

	<i>Notes</i>	Nominal value per share <i>HK\$</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised:				
At 1 April 2007 and 31 March 2008		0.01	20,000,000,000	200,000
Reduction of share capital	(d)(ii)		<u>—</u>	<u>(198,000)</u>
		0.0001	20,000,000,000	2,000
Consolidation of shares	(d)(iii)		<u>(19,800,000,000)</u>	<u>—</u>
		0.01	200,000,000	2,000
Increase	(d)(iv)	0.01	<u>19,800,000,000</u>	<u>198,000</u>
<b>At 31 March 2009</b>		0.01	<u><u>20,000,000,000</u></u>	<u><u>200,000</u></u>
Issued and fully paid:				
At 1 April 2007		0.01	3,927,075,240	39,271
Rights issue of share	(a)	0.01	<u>1,963,537,620</u>	<u>19,635</u>
At 31 March 2008		0.01	5,890,612,860	58,906
On conversion of convertible note	(b)	0.01	<u>784,375,000</u>	<u>7,843</u>
		0.01	6,674,987,860	66,749
Exercise of share options	(c)	0.01	<u>2,140</u>	<u>—</u>
			6,674,990,000	66,749
Reduction of share capital	(d)(i)		<u>—</u>	<u>(66,082)</u>
		0.0001	6,674,990,000	667
Consolidation of shares	(d)(iii)		<u>(6,608,240,100)</u>	<u>—</u>
		0.01	66,749,900	667
Rights issue of shares	(e)	0.01	<u>667,499,000</u>	<u>6,675</u>
<b>At 31 March 2009</b>		0.01	<u><u>734,248,900</u></u>	<u><u>7,342</u></u>

*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 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 offer was accepted on 19 August 2008 for a nominal consideration of HK\$1 and was exercised in full on the same date.
- (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.
- (e) On 19 January 2009, the Company allotted 667,499,000 rights shares of HK\$0.01 each at the subscription price of HK\$0.15 per rights share on the basis of ten rights share for every existing ordinary share held. The Company raised HK\$99,441,000 (net of expenses) with the intention at the time of rights issue to finance the development of manufacturing operations in the PRC and for general working capital use.

All shares issued during the years ended 31 March 2008 and 2009 rank *pari passu* with the then existing shares in issue in all respects.

## 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.

A summary of the movements of the Company's share options during the year was as follows:

Date of grant	Number of share options <i>(Note a)</i>				Exercise price per share option	Exercise period
	At 1 April 2008	Granted during the year	Exercised during the year	At 31 March 2009		
18 August 2008	—	2,140	(2,140)	—	HK\$0.0162 <i>(Note a)</i>	From 18 August 2008 to 31 August 2008 <i>(Note b)</i>

*Notes:*

- (a) The number and exercise price of the share options had not been adjusted to reflect the Capital Reorganisation which became effective on 23 September 2008 (see note 24(d)).
- (b) The share options had no vesting period and are exercisable from the date of grant.

Save as disclosed above, no share options were granted, exercised or cancelled under the Share Option Scheme during the years ended 31 March 2009 and 31 March 2008.

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

**26. CAPITAL COMMITMENTS**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment		
- contracted for but not provided in the consolidated financial statements	1,153	45,654
- authorised but not contracted for	<u>—</u>	<u>384,636</u>
	<u>1,153</u>	<u>430,290</u>

The capital expenditure at 31 March 2008 shown above was principally for the Huzhou Project. As set out in note 15, Huzhou Project no longer viable and therefore the Group has stopped further investment in the development project.

**27. OPERATING LEASE ARRANGEMENTS**

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payments recognised in the consolidated income statement during the year	<u>1,598</u>	<u>1,706</u>

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

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,526	1,511
In the second to fifth year inclusive	3,413	4,250
Over five years	<u>314</u>	<u>920</u>
	<u>5,253</u>	<u>6,681</u>

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

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

**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.

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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:

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Employers' contributions charged to the consolidated income statement	<u>170</u>	<u>157</u>

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

### 29. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 March 2009 and 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”) <sup>1</sup>	PRC	Registered HK\$11,260,000	—	100%	Bleaching and dyeing
永義紡織(河源)有限公司 (“He Yuan”) <sup>2</sup>	PRC	Registered US\$1,000,000	—	100%	Knitting
永義製衣(湖州)有限公司 (“Huzhou Garment”) <sup>3</sup>	PRC	Registered US\$14,182,668 (2008: US\$8,634,800)	—	100%	Construction in progress of garment production plant for own use (suspended)

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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	
永義紡織(湖州)有限公司 ("Huzhou Knitting") <sup>4</sup>	PRC	Registered US\$3,313,846	—	100%	Construction in progress of knitting production plant for own use (suspended)
永義漂染(湖州)有限公司 ("Huzhou Bleaching and Dyeing") <sup>5</sup>	PRC	Registered US\$3,009,110	—	100%	Construction in progress of bleaching and dyeing production plant for own use (suspended)
Gainever Corporation Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of marketable securities

*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 2009.

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## APPENDIX II      FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE

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*The following is the text of a report received from the independent reporting accountants. Tony Yuen & Co., in respect of the audited financial information of Chancemore Limited from 11 March 2009 (date of incorporation) to 29 June 2009 as set out in this appendix for inclusions in this circular.*

24 July 2009

The Board of Directors  
Easyknit Enterprises Holdings Limited  
7/F., Phase 6  
Hong Kong Spinners Building  
481-483 Castle Peak Road  
Cheung Sha Wan  
Kowloon

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to Chancemore Limited (“Chancemore”) for the period from 11 March 2009 (date of incorporation of Chancemore) to 29 June 2009 (the “Relevant Period”), for inclusion in the circular of Easyknit Enterprises Holdings Limited (the “Company”) dated 24 July 2009 in connection with the Company’s proposed acquisition of the entire issued share capital of Chancemore (the “Circular”).

Chancemore is principally engaged in property investment and was incorporated in British Virgin Islands on 11 March 2009 with limited liability.

We have acted as auditors of Chancemore for the Relevant Period. The financial statements of Chancemore for the Relevant Period were prepared in accordance with accounting principles generally accepted in Hong Kong and we have carried out our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The sole director of Chancemore is responsible for preparing the audited financial statements of Chancemore. The Financial Information is based on the audited financial statements of Chancemore. No adjustments to the audited financial statements of Chancemore have been considered necessary for the purpose of this report. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to examine the Financial Information set out in this report, to form an independent opinion on the Financial Information and to report our opinion to you.

We have examined the Financial Information of Chancemore for the Relevant Period. Our examination was made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

In our opinion, the Financial Information, for the purpose of this report, and on the basis of presentation set out below gives a true and fair view of the profit/loss and cash flows of Chancemore for the period from 11 March 2009 (date of incorporation) to 29 June 2009 and of the assets and liabilities of Chancemore at 29 June 2009.

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**APPENDIX II FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE**

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**I. FINANCIAL INFORMATION****Statement of comprehensive income**

	<i>Notes</i>	<b>11.3.2009 to 29.6.2009 HK\$</b>
TURNOVER	3	—
COST OF SALES		—
GROSS PROFIT		—
DISTRIBUTION COSTS		—
ADMINISTRATIVE EXPENSES		—
OTHER OPERATING EXPENSES		—
PROFIT FROM OPERATIONS		—
FINANCE COSTS		—
PROFIT FOR THE PERIOD		—
OTHER COMPREHENSIVE INCOME		—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		—
BASIC PROFIT PER SHARE	6	—

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**APPENDIX II FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE**

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**Statement of financial position**

	<b>Notes</b>	<b>29.6.2009</b> <i>HK\$</i>
<b>CURRENT ASSET</b>		
Deposits paid for acquisition of properties	9	8,053,200
<b>CURRENT LIABILITY</b>		
Amount due to the sole shareholder	7	<u>8,053,192</u>
<b>NET CURRENT ASSETS</b>		<u><u>8</u></u>
<b>SHARE CAPITAL</b>	8	8
<b>RETAINED PROFITS</b>		<u>—</u>
<b>CAPITAL AND RESERVES</b>		<u><u>8</u></u>

**Statement of changes in equity**

	<b>Share capital</b> <i>HK\$</i>	<b>Retained profits</b> <i>HK\$</i>	<b>11.3.2009 to 29.6.2009</b> <b>Total</b> <i>HK\$</i>
Issue of one ordinary share at US\$1	8	—	8
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>
Balance at 29 June 2009	<u><u>8</u></u>	<u><u>—</u></u>	<u><u>8</u></u>

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**APPENDIX II FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE**

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**Statement of cash flows**

	<b>11.3.2009 to 29.6.2009 HK\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Profit from operation	—
Adjustments	—
	<u>—</u>
Operating profit before movements in working capital	—
Deposits paid for acquisition of properties	(8,053,200)
	<u>(8,053,200)</u>
Cash used in operations	(8,053,200)
Income tax paid	—
	<u>—</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(8,053,200)</b>
	-----
<b>FINANCING ACTIVITIES</b>	
Proceeds on issue of one ordinary share	8
Advance from the sole shareholder	8,053,192
	<u>8,053,192</u>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>8,053,200</b>
	-----
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>—</b>
	<u>—</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>—</b>
	<u>—</u>
<b>ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS</b>	
Bank balances and cash	—
	<u>—</u>

**II. NOTES ON THE FINANCIAL STATEMENTS****1 GENERAL**

Chancemore Limited is a company incorporated in British Virgin Islands with limited liability. The company's registered office is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The principal activity of the company during the period was property investment.

**2 SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared under the historical cost convention and has been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

**(a) Income tax**

Income tax for the period may comprise current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly to equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

**(b) Related parties**

For the purposes of these financial statements, parties are considered to be related to the company if the company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the company and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the company where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the company or of any entity that is a related party of the company.

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## APPENDIX II FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE

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### 3 TURNOVER

Chancemore did not have any turnover during the Relevant Period.

### 4 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

#### (i) Directors' remuneration

No remuneration was paid to Chancemore's sole director during the Relevant Period and no remuneration was waived by the sole director during the Relevant Period.

#### (ii) Employees' remuneration

No remuneration was paid to employees during the Relevant Period.

### 5 TAXATION

No provision for taxation has been made as Chancemore had no revenue for the Relevant Period.

No provision for deferred taxation has been made as the amount involved is insignificant.

### 6 PROFIT PER SHARE

As only one share was in issue during the Relevant Period, the profit per share is equal to the net profit for the period.

There were no potentially dilutive shares in existence during the Relevant Period.

### 7 AMOUNT DUE TO THE SOLE SHAREHOLDER

The amount due is unsecured and interest-free.

### 8 SHARE CAPITAL

**29.6.2009**

*HK\$*

Authorised:

50,000 ordinary shares of US\$1 each

390,000

Issued and fully paid:

1 ordinary share of US\$1 each

8

Chancemore was incorporated on 11 March 2009 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. At the time of incorporation, one ordinary share of US\$1 was issued at par to the founder member to provide the initial capital for Chancemore.

Other than the above, there were no changes in Chancemore's authorised, issued and fully paid share capital in the Relevant Period.

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## APPENDIX II FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE

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### 9 CAPITAL COMMITMENTS

Chancemore entered into a sale and purchase agreement (“Property Purchase Agreement”) for the acquisition of the following properties at a consideration of HK\$53,688,000:

- Ground Floor and Cockloft Floor, No.13 Matheson Street, Hong Kong\*

Up to 29 June 2009, Chancemore had paid a total deposit of HK\$8,053,200 to the vendor pursuant to the Property Purchase Agreement. Upon completion of the Property Purchase Agreement, Chancemore will have to pay the remaining balance of the consideration in the sum of HK\$45,634,800 to the vendor.

\* with tenancy agreement still in force at the time for completion of the Property Purchase Agreement.

### 10 SHARE SALE AGREEMENT

Chancemore’s sole shareholder (the “Seller”) entered into an agreement (“Chancemore Agreement”) with Power Bright Investment Limited (“Power Bright”), a wholly owned subsidiary of Easyknit Properties Holdings Limited, to sell his entire share holding in Chancemore (the “Sale Share”) to Power Bright at the consideration of HK\$8,053,200.

Pursuant to the Chancemore Agreement, Power Bright has the right to require the Seller to purchase back the Sale Share if completion of purchase of the property as mentioned in the Property Purchase Agreement does not take place on 25 September 2009 (or such later date as the parties may agree) for whatever reason, at a consideration equivalent to the aggregate of (i) HK\$8,053,200 (subject to adjustment under the Chancemore Agreement), (ii) HK\$45,634,800 being the balance of the consideration payable under the Property Purchase Agreement if it has been paid by Power Bright or Chancemore, and (iii) any other sum paid by Power Bright and/or Chancemore for the purchase of the said property. Power Bright may exercise this right by notice in writing to the Seller any time on or before 30 September 2009.

### 11 RELATED PARTY TRANSACTIONS

Apart from those disclosed elsewhere, Chancemore had no other transactions with related parties during the Relevant Period.

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Chancemore have been prepared in respect of any period subsequent to 29 June 2009.

Yours faithfully  
**Tony Yuen & Co.**  
Certified Public Accountants  
Hong Kong

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**APPENDIX II      FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE**

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*The following is the text of a report received from the independent reporting accountants, Tony Yuen & Co., in respect of the audited financial information of Clever Wise Holdings Limited from 19 May 2009 (date of incorporation) to 29 June 2009 as set out in this appendix for inclusion in this circular.*

24 July 2009

The Board of Directors  
Easyknit Enterprises Holdings Limited  
7/F., Phase 6  
Hong Kong Spinners Building  
481-483 Castle Peak Road  
Cheung Sha Wan  
Kowloon

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to Clever Wise Holdings Limited (“Clever Wise”) for the period from 19 May 2009 (date of incorporation of Clever Wise) to 29 June 2009 (the “Relevant Period”), for inclusion in the circular of Easyknit Enterprises Holdings Limited (the “Company”) dated 24 July 2009 in connection with the Company’s proposed acquisition of the entire issued share capital of Clever Wise (the “Circular”).

Clever Wise is principally engaged in property investment and was incorporated in British Virgin Islands on 19 May 2009 with limited liability.

We have acted as auditors of Clever Wise for the Relevant Period. The financial statements of Clever Wise for the Relevant Period were prepared in accordance with accounting principles generally accepted in Hong Kong and we have carried out our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The sole director of Clever Wise is responsible for preparing the audited financial statements of Clever Wise. The Financial Information is based on the audited financial statements of Clever Wise. No adjustments to the audited financial statements of Clever Wise have been considered necessary for the purpose of this report. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to examine the Financial Information set out in this report, to form an independent opinion on the Financial Information and to report our opinion to you.

We have examined the Financial Information of Clever Wise for the Relevant Period. Our examination was made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

In our opinion, the Financial Information, for the purpose of this report, and on the basis of presentation set out below gives a true and fair view of the profit/loss and cash flows of Clever Wise for the period from 19 May 2009 (date of incorporation) to 29 June 2009 and of the assets and liabilities of Clever Wise at 29 June 2009.

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**APPENDIX II FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE**

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**I. FINANCIAL INFORMATION****Statement of comprehensive income**

	<i>Notes</i>	<b>19.5.2009 to 29.6.2009 HK\$</b>
TURNOVER	3	—
COST OF SALES		<u>—</u>
GROSS PROFIT		—
DISTRIBUTION COSTS		—
ADMINISTRATIVE EXPENSES		—
OTHER OPERATING EXPENSES		<u>—</u>
PROFIT FROM OPERATIONS		—
FINANCE COSTS		<u>—</u>
PROFIT FOR THE PERIOD		—
OTHER COMPREHENSIVE INCOME		<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>—</u></u>
BASIC PROFIT PER SHARE	6	<u><u>—</u></u>

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**APPENDIX II FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE**

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**Statement of financial position**

	<i>Notes</i>	<b>29.6.2009</b> <i>HK\$</i>
<b>CURRENT ASSET</b>		
Deposits paid for acquisition of property	9	5,700,000
<b>CURRENT LIABILITY</b>		
Amount due to the sole shareholder	7	<u>5,699,992</u>
<b>NET CURRENT ASSETS</b>		<u><u>8</u></u>
<b>SHARE CAPITAL</b>	8	8
<b>RETAINED PROFITS</b>		<u>—</u>
<b>CAPITAL AND RESERVES</b>		<u><u>8</u></u>

**Statement of changes in equity**

	<b>Share capital</b> <i>HK\$</i>	<b>Retained profits</b> <i>HK\$</i>	<b>19.5.2009 to 29.6.2009</b> <b>Total</b> <i>HK\$</i>
Issue of one ordinary share at US\$1	8	—	8
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>
Balance at 29 June 2009	<u><u>8</u></u>	<u><u>—</u></u>	<u><u>8</u></u>

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**APPENDIX II FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE**

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**Statement of cash flows**

	<b>19.5.2009 to 29.6.2009 HK\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Profit from operation	—
Adjustments	<u>—</u>
Operating profit before movements in working capital	—
Deposits paid for acquisition of property	<u>(5,700,000)</u>
Cash used in operations	(5,700,000)
Income tax paid	<u>—</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b><u>(5,700,000)</u></b>
<b>FINANCING ACTIVITIES</b>	
Proceeds on issue of one ordinary share	8
Advance from the sole shareholder	<u>5,699,992</u>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b><u>5,700,000</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b><u>—</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b><u>—</u></b>
<b>ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS</b>	
Bank balances and cash	<u>—</u>

**II. NOTES ON THE FINANCIAL STATEMENTS****1 GENERAL**

Clever Wise Holdings Limited is a company incorporated in British Virgin Islands with limited liability. The company's registered office is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The principal activity of the company during the period was property investment.

**2 SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared under the historical cost convention and has been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

**(a) Income tax**

Income tax for the period may comprise current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly to equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

**(b) Related parties**

For the purposes of these financial statements, parties are considered to be related to the company if the company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the company and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the company where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the company or of any entity that is a related party of the company.

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## APPENDIX II FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE

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### 3 TURNOVER

Clever Wise did not have any turnover during the Relevant Period.

### 4 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

#### (i) Directors' remuneration

No remuneration was paid to Clever Wise's sole director during the Relevant Period and no remuneration was waived by the sole director during the Relevant Period.

#### (ii) Employees' remuneration

No remuneration was paid to employees during the Relevant Period.

### 5 TAXATION

No provision for taxation has been made as Clever Wise had no revenue for the Relevant Period.

No provision for deferred taxation has been made as the amount involved is insignificant.

### 6 PROFIT PER SHARE

As only one share was in issue during the Relevant Period, the profit per share is equal to the net profit for the period.

There were no potentially dilutive shares in existence during the Relevant Period.

### 7 AMOUNT DUE TO THE SOLE SHAREHOLDER

The amount due is unsecured and interest-free.

### 8 SHARE CAPITAL

	<b>29.6.2009</b>
	<i>HK\$</i>
Authorised:	
50,000 ordinary shares of US\$1 each	<u>390,000</u>
Issued and fully paid:	
1 ordinary share of US\$1 each	<u>8</u>

Clever Wise was incorporated on 19 May 2009 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. At the time of incorporation, one ordinary share of US\$1 was issued at par to the founder member to provide the initial capital for Clever Wise.

Other than the above, there were no changes in Clever Wise's authorised, issued and fully paid share capital in the Relevant Period.

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## APPENDIX II FINANCIAL INFORMATION OF CHANCEMORE AND CLEVER WISE

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### 9 CAPITAL COMMITMENTS

Clever Wise entered into a sale and purchase agreement (“Property Purchase Agreement”) for the acquisition of the following property at a consideration of HK\$38,000,000:

— Ground Floor, No. 148 Johnston Road, Hong Kong\*

Up to 29 June 2009, Clever Wise had paid a total deposit of HK\$5,700,000 to the vendor pursuant to the Property Purchase Agreement. Upon completion of the Property Purchase Agreement, Clever Wise will have to pay the remaining balance of the consideration in the sum of HK\$32,300,000 to the vendor.

\* with tenancy agreement still in force at the time for completion of the Property Purchase Agreement.

### 10 SHARE SALE AGREEMENT

Clever Wise’s sole shareholder (the “Seller”) entered into an agreement (“Clever Wise Agreement”) with Power Bright Investment Limited (“Power Bright”), a wholly owned subsidiary of Easyknit Properties Holdings Limited, to sell his entire share holding in Clever Wise (the “Sale Share”) to Power Bright at the consideration of HK\$5,700,000.

Pursuant to the Clever Wise Agreement, Power Bright has the right to require the Seller to purchase back the Sale Share if completion of purchase of the property as mentioned in the Property Purchase Agreement does not take place on 21 September 2009 (or such later date as the parties may agree) for whatever reason, at a consideration equivalent to the aggregate of (i) HK\$5,700,000 (subject to adjustment under the Clever Wise Agreement), (ii) HK\$32,300,000 being the balance of the consideration payable under the Property Purchase Agreement if it has been paid by Power Bright or Clever Wise, and (iii) any other sum paid by Power Bright and/or Clever Wise for the purchase of the said property. Power Bright may exercise this right by notice in writing to the Seller any time on or before 30 September 2009.

### 11 RELATED PARTY TRANSACTIONS

Apart from those disclosed elsewhere, Clever Wise had no other transactions with related parties during the Relevant Period.

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Clever Wise have been prepared in respect of any period subsequent to 29 June 2009.

Yours faithfully  
**Tony Yuen & Co.**  
Certified Public Accountants  
Hong Kong

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## **APPENDIX III    UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP**

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*The following are the unaudited pro forma statement of assets and liabilities on the Enlarged Group and the text of the accountants' report thereon from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of inclusion in this circular.*

### **1.    UNAUDITED PRO FORMA NET ASSETS STATEMENT**

The unaudited pro forma net assets statement of the Group, Chancemore and Clever Wise (the Group, Chancemore and Clever Wise together are referred to as the “Enlarged Group”) (the “Unaudited Pro Forma Net Assets Statement”) has been prepared to demonstrate the effect of the proposed acquisition of the Matheson Street Property and Johnston Road Property through the acquisition of the entire issued share capital of Chancemore and Clever Wise (the “Acquisition”) on the net assets of the Group.

The Unaudited Pro Forma Net Assets Statement has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if the Acquisition together with the Provisional Matheson Street Property Purchase Agreement and Johnston Road Property Purchase Agreement had been taken place on 31 March 2009.

The preparation of the Unaudited Pro Forma Net Assets Statement is based on (1) the audited consolidated balance sheet of the Group as at 31 March 2009 which has been extracted from the published annual report of the Group for the year ended 31 March 2009, and (2) the audited balance sheets of Chancemore and Clever Wise as at 29 June 2009 as extracted from the accountants' reports on Chancemore and Clever Wise issued by Tony Yuen & Co., Certified Public Accountants in Hong Kong, as set out in Appendix II to this circular, and adjusted only to reflect the pro forma adjustments described in the notes thereto. Narrative description of the unaudited pro forma adjustments that are directly attributable to the Acquisition and the Provisional Matheson Street Property Purchase Agreement and Johnston Road Property Purchase Agreement, and are factually supportable, is summarised in the accompanying notes.

The Unaudited Pro Forma Net Assets Statement is based on a number of assumptions, estimates and uncertainties. The accompanying Unaudited Pro Forma Net Assets Statement does not purport to describe the actual financial position of the Group that would have been attained had the Acquisition and the Provisional Matheson Street Property Purchase Agreement and Johnston Road Property Purchase Agreement been completed on 31 March 2009. The Unaudited Pro Forma Net Assets Statement does not purport to predict the future financial position of the Enlarged Group.

The Unaudited Pro Forma Net Assets Statement should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 March 2009 and other financial information included elsewhere in this circular.

**APPENDIX III UNAUDITED PRO FORMA STATEMENT OF ASSETS AND  
LIABILITIES OF THE ENLARGED GROUP**

	The	Chancemore	Clever	Pro forma adjustments				Pro forma
	Group at 31 March 2009 <i>HK\$'000</i> <i>(audited)</i>	at 29 June 2009 <i>HK\$'000</i> <i>(audited)</i>	Wise at 29 June 2009 <i>HK\$'000</i> <i>(audited)</i>	<i>HK\$'000</i> <i>(Note a)</i>	<i>HK\$'000</i> <i>(Note b)</i>	<i>HK\$'000</i> <i>(Note c)</i>	<i>HK\$'000</i> <i>(Note d)</i>	total for the Enlarged Group <i>HK\$'000</i>
<b>Non-current assets</b>								
Property, plant and equipment	106,999	—	—	—	—	—	—	106,999
Investment properties	—	—	—	—	—	56,115	39,660	95,775
Prepaid lease payments	40,921	—	—	—	—	—	—	40,921
Deposits for acquisition of property, plant and equipment	38	—	—	—	—	—	—	38
	<u>147,958</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>56,115</u>	<u>39,660</u>	<u>243,733</u>
<b>Current assets</b>								
Inventories	6,008	—	—	—	—	—	—	6,008
Trade and other receivables	64,346	8,053	5,700	—	—	(8,053)	(5,700)	64,346
Prepaid lease payments	881	—	—	—	—	—	—	881
Investments held for trading	4,056	—	—	—	—	—	—	4,056
Pledged bank deposits	10,000	—	—	—	—	—	—	10,000
Bank balances and cash	154,870	—	—	(8,053)	(5,700)	(48,062)	(33,750)	59,305
	<u>240,161</u>	<u>8,053</u>	<u>5,700</u>	<u>(8,053)</u>	<u>(5,700)</u>	<u>(56,115)</u>	<u>(39,450)</u>	<u>144,596</u>
<b>Current liabilities</b>								
Trade and other payables	23,732	—	—	—	—	—	210	23,942
Shareholder's loan	—	8,053	5,700	(8,053)	(5,700)	—	—	—
Bills payable	1,739	—	—	—	—	—	—	1,739
Tax payable	6,068	—	—	—	—	—	—	6,068
	<u>31,539</u>	<u>8,053</u>	<u>5,700</u>	<u>(8,053)</u>	<u>(5,700)</u>	<u>—</u>	<u>210</u>	<u>31,749</u>
<b>Net current assets (liabilities)</b>	<u>208,622</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(56,115)</u>	<u>(39,660)</u>	<u>112,847</u>
<b>Net assets (liabilities)</b>	<u>356,580</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>356,580</u>

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## APPENDIX III UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

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*Notes:*

- (a) The adjustment represents the payment of the consideration of HK\$8,053,200 for the acquisition of the entire issued share capital of Chancemore and the assignment of the shareholder's loan of Chancemore outstanding as at 29 June 2009 amounting to HK\$8,053,192 by way of cash settlement in total of HK\$8,053,200.
- (b) The adjustment represents the payment of the consideration of HK\$5,700,000 for the acquisition of the entire issued share capital of Clever Wise and the assignment of the shareholder's loan of Clever Wise outstanding as at 29 June 2009 amounting to HK\$5,699,992 by way of cash settlement in total of HK\$5,700,000.
- (c) The adjustment represents the reclassification of the deposits paid for the acquisition of the Matheson Street Property amounting to HK\$8,053,200, the balance payment for the acquisition of the Matheson Street Property amounting to HK\$45,634,800 to the Matheson Street Property Vendor, and the payment of expenditures directly related to the acquisition, including stamp duty, agency fee and professional fees of approximately HK\$2,427,000, prior to and upon completion of the Provisional Matheson Street Property Purchase Agreement.
- (d) The adjustment represents the reclassification of the deposits paid for the acquisition of the Johnston Road Property amounting to HK\$5,700,000, the balance payment for the acquisition of the Johnston Road Property amounting to HK\$32,300,000 to the Johnston Road Property Vendor, the payment of expenditures directly related to the acquisition, including stamp duty, agency fee and professional fees of approximately HK\$1,660,000, and the recognition of the indemnity executed by Clever Wise to refund the rental deposit to the tenant of the Johnston Road Property (if and when the same shall become payable) of HK\$210,000 prior to and upon completion of the Johnston Road Property Purchase Agreement.
- (e) If Power Bright is to exercise the Chancemore Option and the Clever Wise Option, further pro forma adjustments have to be put through to reverse all the adjustments as set out in notes (a) to (d) above and to eliminate all the assets and liabilities of Chancemore and Clever Wise at 29 June 2009 being acquired as set out in the table above. The components of the unaudited pro forma net assets statement of the Enlarged Group after taking into account of these further adjustments will be the same as those of the Group before the acquisitions.

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## APPENDIX III UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

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### 2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA NET ASSETS STATEMENT



#### ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA NET ASSETS STATEMENT

#### TO THE DIRECTORS OF EASYKNIT ENTERPRISES HOLDINGS LIMITED

We report on the unaudited pro forma net assets statement of Easyknit Enterprises Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) together with Chancemore Limited and Clever Wise Holdings Limited (collectively the “Enlarged Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of, among others, the entire issued share capital of Chancemore Limited and Clever Wise Holdings Limited might have affected the consolidated net assets of the Group presented, for inclusion in Section 1 of Appendix III to the circular of the Company dated 24 July 2009 (the “Circular”). The basis of preparation of the unaudited pro forma net assets statement is set out in Section 1 of Appendix III 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 net assets statement 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.

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 net assets statement 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 net assets statement 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 Hong Kong Institute of Certified Public Accountants. 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 net assets statement with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

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## APPENDIX III UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

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

The unaudited pro forma net assets statement 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 Enlarged Group as at 31 March 2009 or any future date.

### Opinion

In our opinion:

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

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

24 July 2009

**1. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the present available financial resources and the existing banking facilities available, the Enlarged 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.

**2. INDEBTEDNESS**

At the close of business on 30 June 2009, being the latest practicable date for ascertaining its indebtedness prior to the printing of this circular, the Group had no outstanding bank borrowings. It had banking facilities of approximately HK\$10,000,000 which were secured by a fixed charge over a bank deposit of the Group as at 30 June 2009.

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.

**3. FINANCIAL AND OPERATIONAL PROSPECTS OF THE ENLARGED GROUP**

During the year ended 31 March 2009, the Group was principally engaged in the businesses of bleaching and dyeing, and knitting.

For the year ended 31 March 2009, the Group recorded a turnover of approximately HK\$59,960,000, a decrease of approximately 20.0% over last year (2008: approximately HK\$74,923,000). The Group recorded a gross loss of approximately HK\$1,621,000 (2008: gross profit of approximately HK\$9,202,000). 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 year under review.

Loss attributable to shareholders increased by approximately 166.4% to approximately HK\$47,457,000 (2008: loss of approximately HK\$17,811,000). The increase in loss was mainly due to the impairments of approximately HK\$8,269,000 and HK\$15,325,000 made on recognising the decrease in value of the manufacturing assets of the Group and the construction in progress of the Huzhou Project respectively, and the allowance of approximately HK\$3,793,000 made for doubtful debts.

**Bleaching and dyeing**

The bleaching and dyeing business continued to be the major business of the Group and contributed to approximately 99.86% of the Group's total turnover for the year ended 31 March 2009 (2008: 99.96%). Taking into account the portion of inter-segment sale of approximately HK\$3,307,000 (2008: nil), turnover of this segment decreased by approximately 15.63% to approximately HK\$63,186,000 (2008: approximately HK\$74,891,000). This segment suffered a loss of approximately

HK\$16,522,000 (2008: loss of approximately HK\$2,323,000). The loss was due to the increase in fixed production cost per unit as a result of decrease in sales, the increase in direct material costs, the allowance for doubtful debts of approximately HK\$3,793,000 made and impairment loss in respect of property, plant and equipment of approximately HK\$8,269,000 recognised for the year.

### **Knitting**

Turnover for the knitting business accounted for approximately 0.14% (2008: 0.04%) of the Group's turnover for the year ended 31 March 2009. External sales of approximately HK\$81,000 were recorded for the knitting business during the year under review (2008: approximately HK\$32,000). Taking into account the portion of inter-segment sale of approximately HK\$37,835,000 (2008: approximately HK\$8,455,000), turnover derived from this segment rose by approximately 346.75% to approximately HK\$37,916,000 (2008: approximately HK\$8,487,000). Despite the increase in turnover, loss of approximately HK\$5,045,000 was recorded for this segment (2008: loss of approximately HK\$1,362,000). The increase in loss was due to the rise in the price of cotton yarn, a raw material for knitting production, during the year under review.

### **Geographical analysis**

The Group's turnover is mainly derived from sales made to customers in Hong Kong with manufacturing operations located in the PRC.

### **Huzhou Project**

During the year, two blocks of factory premises and four blocks of workers' quarters have been completed on the land for garment manufacturing operation in respect of the Group's project in constructing knitting, bleaching and dyeing and garment manufacturing operations in Zhili Town, Huzhou City, China (the "Huzhou Project"). To recognise the relevant completion, a corresponding cost of HK\$101,144,000 has been transferred from the construction in progress to the buildings. The land use right certificate of the remaining portion of land earmarked for bleaching and dyeing operation has still not been granted to the Group but will be issued in the next few months.

An announcement was published by the Company on 24 February 2009 concerning the Group having been advised by the Zhili Town Government by a letter dated 6 February 2009 that the plans for the Huzhou Project have to be changed due to the deterioration of the environment along the Taihu Lake area in the recent two years. The dyeing and bleaching operations, being an integral part of the Huzhou Project plan, may discharge significant quantities of liquid waste. Any such discharge will no longer be permitted.

The Zhili Town Government has suggested that the land for the Huzhou Project may instead be used for industries such as electronics, machinery and communication, to be operated by wholly-owned enterprises, joint ventures or operations under other contractual arrangements. No relevant permits have yet been applied for by the Group.

As a result of changes required by the Zhili Town Government, the Board has determined that the Huzhou Project as planned for bleaching and dyeing, knitting and garment production is no longer viable for the foreseeable future but shall seek new input to the land acquired. It is in the best interest of the Group to cease any further investment in the Huzhou Project as originally planned. As a result of the cessation, full impairment of approximately HK\$15,325,000 has been made against the remaining balance in the construction in progress of the Huzhou Project. The Board has also considered that it would be inappropriate and not in the interests of shareholders to use the proceeds from all previous rights issues of the Company's shares for the Huzhou Project as originally planned.

The Board will consider alternative uses for the land acquired and the buildings already constructed at the Huzhou Project, taking into account the alternative industries suggested by the Zhili Town Government in its letter.

### **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. If the adverse condition prevails, the Company may look for other more profitable businesses.

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. Together with the Huzhou Government, the Group is looking at other options which will be of benefit to the Group for the use of the land acquired.

## **4. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION OF CHANCEMORE**

Chancemore was incorporated on 11 March 2009 in the British Virgin Islands and has never carried on any business save for entering into the Provisional Matheson Street Property Purchase Agreement.

Based on the audited financial information of Chancemore, as at 29 June 2009, its net assets was HK\$8. The current asset was HK\$8,053,200 which was the deposit paid under the Provisional Matheson Street Property Purchase Agreement. The current liability consisted of a shareholder's loan of HK\$8,053,192. Chancemore financed its operations mainly by loan from its sole shareholder. The loan is unsecured and interest-free. Chancemore had no significant exposure to fluctuations in exchange rates and related hedges as all its payments were in Hong Kong dollars and no financial instrument for hedging purposes was employed. Chancemore did not have any significant contingent liabilities as at 29 June 2009.

To the best knowledge of the Directors, Chancemore does not currently have any employees.

The Directors consider that there will be no effect on the principal business of the Group as a result of the acquisition of Chancemore.

**5. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION OF CLEVER WISE**

Clever Wise was incorporated on 19 May 2009 in the British Virgin Islands and has never carried on any business save for entering into the Johnston Road Property Purchase Agreement.

Based on the audited financial information of Clever Wise, as at 29 June 2009, its net assets was HK\$8. The current asset was HK\$5,700,000 which was the deposit paid under the Johnston Road Property Purchase Agreement. The current liability consisted of a shareholder's loan of HK\$5,699,992. Clever Wise financed its operations mainly by loan from its sole shareholder. The loan is unsecured and interest-free. Clever Wise had no significant exposure to fluctuations in exchange rates and related hedges as all its payments were in Hong Kong dollars and no financial instrument for hedging purposes was employed. Clever Wise did not have any significant contingent liabilities as at 29 June 2009.

To the best knowledge of the Directors, Clever Wise does not currently have any employees.

The Directors consider that there will be no effect on the principal business of the Group as a result of the acquisition of Clever Wise.

*The following is the text of a letter and valuation certificates prepared for the purpose of incorporation in this circular received from **Vigers Appraisal & Consulting Limited**, an independent valuer, in connection with their valuations of the properties as at 30 June 2009.*

**Vigers Appraisal and Consulting Limited**  
*International Assets Appraisal Consultants*

10th Floor, The Grande Building  
398 Kwun Tong Road  
Kowloon  
Hong Kong



24 July 2009

The Directors  
Power Bright Investments Limited  
7/F., Hong Kong Spinners Industrial Building, Phase 6  
481-483 Cheung Sha Wan Road  
Kowloon  
Hong Kong

Dear Sirs,

**RE: VALUATIONS OF PROPERTIES IN HONG KONG**

In accordance with your instructions for us to value the properties to be acquired and/or owned by Power Bright Investments Limited and its subsidiary (hereinafter together referred to as “the Group”), we confirm that we have inspected the properties, conducted land searches at the Land Registry, made relevant enquiries and investigations as well as obtained such further information as we consider necessary for the purpose of providing our opinion of values of the properties as at 30 June 2009 (“the Valuation Date”).

Our valuations are our opinion of market value of the properties which is defined as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing selling on an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Our valuations have been prepared in accordance with “The HKIS Valuation Standards on Properties (First Edition 2005)” published by The Hong Kong Institute of Surveyors, the relevant provisions in the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board).

Our valuations have been made on the assumption that the properties are sold in the market in their existing state without the effect of deferred term contract, leaseback, joint venture, management agreement or any other similar arrangement which might serve to affect the values of the properties. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties.

In valuing the properties which are intended to be held or held for investment by the Group, we have adopted the investment approach, which capitalize the rents receivable from the existing tenancies and potential reversionary market rents of the properties taking into account the rental comparables in the market.

We have conducted land searches at the Land Registry but we have not scrutinised the original documents to ascertain ownership nor to verify any lease amendments which may not appear on the copies handed to us. All documents have been used for reference only and all dimensions, measurements and areas are therefore approximations.

We have inspected the properties to the extent for the purpose of these valuations but we have not carried out any structural survey nor have we inspected woodwork or other parts of the structures which were covered, unexposed or inaccessible to us. We are therefore unable to report whether the properties are free from any structural or non-structural defect.

We have relied to a considerable extent on the information made available to us and we have accepted advice on such matters as planning approvals, statutory notices, easements, occupancy, tenancy status, tenure, site and floor areas. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group and we have been advised by the Group that no material facts have been omitted from the information provided.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties for any expenses or taxation which might be incurred in effecting a sale. Unless otherwise stated, we have assumed that the properties are free from any encumbrances, restrictions and outgoings of an onerous nature which could serve to affect the value of the properties.

We enclose herewith our valuation certificates.

Yours faithfully,  
For and on behalf of  
**VIGERS APPRAISAL & CONSULTING LIMITED**  
**Gilbert K. M. Yuen**  
MRICS MHKIS RPS(GP)  
*Executive Director*

*Note:* Mr. Gilbert K. M. Yuen is a Registered Professional Surveyor in General Practice Division with over 20 years' valuation experience on properties in Hong Kong.

## SUMMARY OF VALUES

## Investment Properties to be acquired by the Group in Hong Kong

<b>Property</b>	<b>Market Value in existing state as at 30 June 2009</b>
1. Ground Floor No. 148 Johnston Road Wan Chai Hong Kong	HK\$39,000,000
2. Ground Floor and Cockloft No. 13 Matheson Street Causeway Bay Hong Kong	HK\$56,000,000
<b>Total</b>	<u>HK\$95,000,000</u>

## VALUATION CERTIFICATE

## Investment Properties to be acquired by the Group in Hong Kong

Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 30 June 2009
1. Ground Floor, No. 148 Johnston Road, Wan Chai, Hong Kong	The property comprises a shop unit on the ground floor of a 16-storey commercial/residential composite building, which was completed in 1967.	The property is leased to Silver Treasure Limited for retailing purposes for a term of 1 year from 1 April 2009 to 31 March 2010 at a monthly rent of HK\$105,000 exclusive of rates and management fee, with an option to renew for a further term of 1 year at open market rent.	HK\$39,000,000
1/31st shares of and in Sub-section 1 of Section A of Marine Lot No. 118 and The Remaining Portion of Section A of Marine Lot No. 118	The property has a saleable area of 47.94 sq.m. (516 sq.ft.) plus a yard of 5.76 sq.m. (62 sq.ft.) approximately.  The property is held under a Government Lease for a term of 999 years from 15 May 1855		

*Notes:*

1. The registered owner of the property is Max Palace Corporation Limited.
2. The property is subject to a mortgage and assignment of rentals in favour of Bank of China (Hong Kong) Limited.
3. Pursuant to Wan Chai Outline Zoning Plan No. S/H5/25 dated 6 November 2007, the property lies on an area zoned for "Commercial/Residential" use.
4. According to the information provided by the Group, the property is subject to an agreement for sale and purchase dated 19 June 2009 in favour of Clever Wise Holdings Limited at a consideration of HK\$38,000,000.

Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 30 June 2009
2. Ground Floor and Cockloft of No. 13 Matheson Street, Causeway Bay, Hong Kong  2/14th shares of and in Section Q of Inland Lot No. 730 and Section R of inland Lot No. 730	<p>The property comprises a shop unit on the ground floor and cockloft of a 6-storey (including a basement) composite building completed in about 1955.</p> <p>The ground floor has a saleable area of 50.82 sq.m. (547 sq.ft.) plus a yard of 21.09 sq.m. (227 sq.ft.) approximately. The cockloft has a saleable area of 40.97 sq.m. (441 sq.ft.) plus a flat roof of 4.74 sq.m. (51 sq.ft.) approximately.</p> <p>The property is held a Government Lease for a term of 999 years from 1 September 1881.</p> <p>The Government rents for the whole of Sections Q and R of Inland Lot No. 730 is totally HK\$28 per annum.</p>	<p>The property is leased to Munich International Limited for the use of a fashion boutique trading under the name of “bv.blü.” for a term of 2 years from 1 May 2008 to 30 April 2010 at a monthly rent of HK\$170,000 exclusive of rates and management fee, with an option to renew for a further term of 2 years at open market rent.</p>	HK\$56,000,000

*Notes:*

1. The current registered owner of the property is Max Up Investments Limited.
2. The property is subject to a legal charge/mortgage to secure all moneys in respect of General Banking Facilities in favour of The Bank of East Asia, Limited.
3. The property is subject to a provisional agreement for sale and purchase dated 13 May 2009 in favour of Chancemore Limited at a consideration of HK\$53,688,000.
4. Pursuant to Wan Chai Outline Zoning Plan No. S/H5/25 dated 6 November 2007, the property lies on an area zoned for “Commercial/Residential” use.
5. According to the information provided by the Group, the property is subject to the following building orders and fire safety directions:
  - i. Order No. UBZ/U07-10/0014/08 by the Building Authority under S.24(1) of the Buildings Ordinance (Re: G/F of 13 Matheson Street) dated 4 March 2009;
  - ii. Order No. UBZ/U07-10/0012/08 by the Building Authority under S.24(1) of the Buildings Ordinance (Re: Cockloft of 13 Matheson Street) dated 4 March 2009;
  - iii. Fire Safety Direction No. BD/FS/TCB1/01038/09 by the Building Department under S5(2)(a)(i) Fire Safety (Buildings) Ordinance (Re: Common area on G/F to 1/F of Nos. 11 and 13 Matheson Street) dated 12 May 2009;

- iv. Fire Safety Direction No. BD/FS/TCB1/01039/09 by the Building Department (Re: Common area on 2/F to Roof of Nos. 13 and 15 Matheson Street) dated 12 May 2009;
  - v. Fire Safety Direction No. FSD/FSDn/1203/2009 by Fire Services Department (Re: G/F of No. 13 Matheson Street) dated 12 May 2009;
  - vi. Fire Safety Direction No. FSD/FSDn/1204/2009 by Fire Services Department (Re: Cockloft of No. 13 Matheson Street) dated 12 May 2009.
6. Our valuation has not reflected the costs required to comply with the above building orders and fire safety directions.

## 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 OF THE 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 Divisions 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:

### Interests in the issued Shares

Name of Director	Capacity	Number of issued Shares held (long positions)	Approximate percentage of interest
Ms. Lui Yuk Chu ( <i>Note i</i> )	Beneficiary of a trust	232,790,657	31.70%

*Note i: These Shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit International Holdings Limited. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit International Holdings Limited. 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 or any of 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 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 2009 (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 Enlarged Group.

### 3. DISCLOSURE OF INTEREST OF THE 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:

Name of Shareholder	Nature of interest	Number of issued Shares held (long position)	Approximate percentage of interest
Koon Wing Yee ( <i>note i</i> )	Interest of spouse	232,790,657	31.70%
Landmark Profits Limited ( <i>notes i &amp; ii</i> )	Beneficial owner	232,790,657	31.70%
Easyknit International Holdings Limited ( <i>notes i &amp; ii</i> )	Interest of controlled corporation	232,790,657	31.70%
Magical Profits Limited ( <i>notes i &amp; iii</i> )	Interest of controlled corporation	232,790,657	31.70%
Accumulate More Profits Limited ( <i>note i</i> )	Interest of controlled corporation	232,790,657	31.70%
Hang Seng Bank Trustee International Limited ( <i>notes i &amp; iv</i> )	Trustee	232,790,657	31.70%
Hang Seng Bank Limited ( <i>note iv</i> )	Interest of controlled corporation	232,790,657	31.70%
The Hongkong and Shanghai Banking Corporation Limited ( <i>notes iv &amp; v</i> )	Interest of controlled corporation	232,790,658	31.70%
HSBC Asia Holdings BV ( <i>note v</i> )	Interest of controlled corporation	232,790,658	31.70%

Name of Shareholder	Nature of interest	Number of issued Shares held (long position)	Approximate percentage of interest
HSBC Asia Holdings (UK) (note v)	Interest of controlled corporation	232,790,658	31.70%
HSBC Holdings BV (note v)	Interest of controlled corporation	232,790,658	31.70%
HSBC Finance (Netherlands) (note v)	Interest of controlled corporation	232,790,658	31.70%
HSBC Holdings plc (note v)	Interest of controlled corporation	232,790,658	31.70%
Park Jong Yong	Beneficial owner	80,222,944	10.92%

*Notes:*

- (i) The 232,790,657 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 Limited (“Landmark Profits”) which was a wholly-owned subsidiary of Easyknit International Holdings Limited (“Easyknit International”). Magical Profits Limited (“Magic Profits”) was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical Profits 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 232,790,657 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 232,790,658 Shares relate to the same block of shares. Out of 232,790,658 Shares, 232,790,657 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.

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**

As at the Latest Practicable Date, no company in the Enlarged Group 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 any company in the Enlarged Group.

#### **6. MATERIAL ADVERSE CHANGES**

Save as referred to in the profit warning announcement of the Company dated 12 June 2009, the Directors are not aware as at the Latest Practicable Date of any material adverse change in the financial or trading position of the Group since 31 March 2009, being the date to which the latest published audited accounts of the Group were made up.

#### **7. DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at the Latest Practicable Date, 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 and their respective associates were appointed 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 2009, 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. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Enlarged Group, were entered into by the Enlarged Group within two years immediately preceding the date of this circular and are or may be material:

- (a) 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;
- (b) 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;
- (c) the underwriting agreement dated 5 November 2008 (as amended by a supplemental agreement dated 3 December 2008) entered into between the Company and Get Nice Securities Limited in relation to the underwriting and certain other arrangements in respect of the rights issue of 667,499,000 rights shares at HK\$0.15 per rights share on the basis of 10 rights shares for every share held;
- (d) the Provisional Matheson Street Property Purchase Agreement;
- (e) the Johnston Road Property Purchase Agreement;
- (f) the Chancemore Agreement; and
- (g) the Clever Wise Agreement.

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

## 10. 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:

<b>Name</b>	<b>Qualification</b>
Deloitte Touche Tohmatsu	Certified Public Accountants
Tony Yuen & Co.	Certified Public Accountants
Vigers Appraisal and Consulting Limited	Independent Professional Valuers

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu, Tony Yuen & Co. and Vigers Appraisal and Consulting Limited 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, Tony Yuen & Co. and Vigers Appraisal and Consulting Limited do not have any direct or indirect interests in any assets which have been, since 31 March 2009 (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, Tony Yuen & Co. and Vigers Appraisal and Consulting Limited 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.

## **11. 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 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.
- (c) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM11, 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.
- (d) The English text of this circular prevails over the Chinese text.

## **12. 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 from the date of this circular, for a period of 14 days:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the letter from Deloitte Touche Tohmatsu, the text of which is set out in Appendix III in this circular;

- (c) the letter from Tony Yuen & Co., the text of which is set out in Appendix II in this circular;
- (d) the valuation report from Vigers Appraisal and Consulting Limited, the text of which is set out in Appendix V in this circular;
- (e) the letter of consent referred to in the paragraph headed “Expert and consent” above;
- (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 2009; and
- (h) this circular.

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## NOTICE OF THE SGM

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### 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 (“Company”) will be held on 12 August 2009 at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 10:00 a.m. (the “Meeting”) for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution with or without amendment:-

#### ORDINARY RESOLUTION

“THAT:-

- 1) (a) the conditional sale and purchase agreement (“Chancemore Agreement”) dated 29 June 2009 entered into between Power Bright Investments Limited (“Power Bright”), a wholly owned subsidiary of the Company, and Li Ming Hung (“Mr. Li”) pursuant to which, inter alia, Power Bright agreed to purchase and Mr Li agreed to sell one ordinary share of US\$1.00 (“Chancemore Share”) in the share capital of Chancemore Limited (“Chancemore”), representing its entire issued share capital and a shareholder’s loan due from Chancemore to Mr. Li (“Chancemore Loan”) for an aggregate consideration of HK\$8,053,200, subject to adjustments (a copy of the Chancemore Agreement has been produced to this meeting marked “A” and initialled by the chairman of the meeting for identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to completion of the Chancemore Agreement and if completion of purchase of the Matheson Street Property does not take place on 25 September 2009 for whatever reason (including but not limited to Power Bright not being satisfied with the title investigation of the Matheson Street Property), the directors of the Company be and are hereby authorised at their discretion to cause the exercise by Power Bright of the option granted under the Chancemore Agreement by Mr. Li to Power Bright to require Mr. Li to purchase the Chancemore Share and the Chancemore Loan for a consideration equal to the aggregate of (i) HK\$8,053,200 (subject to adjustment under the Chancemore Agreement), (ii) HK\$45,634,800 being the balance consideration payable under the Provisional Matheson Street Property Purchase Agreement if it has been paid by Power Bright or Chancemore, and (iii) any other sum paid by Power Bright and/or Chancemore for the purchase of the Matheson Street Property on or before 30 September 2009 (the “Chancemore Option”).

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## NOTICE OF THE SGM

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- 2) (a) the conditional sale and purchase agreement (“Clever Wise Agreement”) dated 29 June 2009 entered into between Power Bright, a wholly owned subsidiary of the Company, and Mr. Li pursuant to which, inter alia, Power Bright agreed to purchase and Mr. Li agreed to sell one ordinary share of US\$1.00 (“Clever Wise Share”) in the share capital of Clever Wise Holdings Limited (“Clever Wise”), representing its entire issued share capital and a shareholder’s loan due from Clever Wise to Mr. Li (the “Clever Wise Loan”) for an aggregate consideration of HK\$5,700,000, subject to adjustments (a copy of the Clever Wise Agreement has been produced to this meeting marked “B” and initialled by the chairman of the meeting for identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to completion of the Clever Wise Agreement and if completion of purchase of the Johnston Road Property does not take place on 21 September 2009 for whatever reason (including but not limited to Power Bright not being satisfied with the title investigation of the Johnston Road Property), the directors of the Company be and are hereby authorised at their discretion to cause the exercise by Power Bright of the option granted by Mr. Li to Power Bright to require Mr. Li to purchase the Clever Wise Share and the Clever Wise Loan for a consideration equal to the aggregate of (i) HK\$5,700,000 (subject to adjustment under the Clever Wise Agreement), (ii) HK\$32,300,000 being the balance consideration payable under the Johnston Road Property Purchase Agreement if it has been paid by Power Bright or Clever Wise, and (iii) any other sum paid by Power Bright and/or Clever Wise for the purchase of the Johnston Road Property exercisable on or before 30 September 2009 (the “Clever Wise Option”).
- 3) the directors of the Company be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Chancemore Agreement, acquisition of the Matheson Street Property, exercise of the Chancemore Option, Clever Wise Agreement, acquisition of the Johnston Road Property and the exercise of the Clever Wise Option.”

By Order of the Board  
**Easyknit Enterprises Holdings Limited**  
**Kwong Jimmy Cheung Tim**  
*Chairman and Chief Executive Officer*

Hong Kong, 24 July 2009

**Notes:**

1. Any shareholder of the Company entitled to attend and vote at the meeting of the Company convened by the above notice shall be entitled to appoint another person as his proxy to attend and vote instead of him. Votes may be given either personally or by duly authorised corporate representative or by proxy. 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 a shareholder of the

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## NOTICE OF THE SGM

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Company. In addition, a proxy or proxies representing either an individual shareholder or a shareholder which is a corporation shall be entitled to exercise the same powers on behalf of the shareholder which he or they represent as such shareholder can exercise, including the right to vote individually on a show of hands.

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 its 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 delivered 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 less than forty-eight (48) hours before the time appointed for holding the meeting or the adjourned meeting (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 any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased shareholder in whose name any share stands shall for this purpose deemed joint holders thereof.
6. A form of proxy for use at the meeting is enclosed.

*\* For identification only*