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

This circular is addressed to the shareholders of the Company in connection with a special general meeting of the Company referred to below.

This circular is not and does not constitute an invitation or an offer to acquire, purchase or subscribe for shares or other securities of the Company.



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 616)

**CONNECTED TRANSACTION AND
VERY SUBSTANTIAL ACQUISITION
IN RELATION TO THE PROPOSED ACQUISITION OF
GARMENT TRADING BUSINESS
AND
PROPOSED REFRESHMENT OF GENERAL MANDATES
TO ISSUE AND REPURCHASE SHARES**

Independent Financial Adviser to the Independent Board Committee



PELICAN FINANCIAL

Pelican Securities Limited

A notice convening the SGM to be held at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 10:00 a.m. on Wednesday, 17 February 2010 is set out on pages N-1 to N-4 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you wish.

A letter of advice from Pelican Securities Limited, the independent financial adviser to the Independent Board Committee of the Company, is set out on pages 35 to 49 of this circular.

* For identification only

29 January 2010

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DEFINITIONS

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

“acting in concert”	the meaning ascribed thereto in the Takeovers Code
“Announcement”	the joint announcement of the Company and Easyknit International dated 8 December 2009 relating to the Transaction and the refreshment of the General Mandates
“associate(s)”	the meaning ascribed thereto in the Listing Rules
“Bye-laws”	Bye-laws of the Company
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong
“Capital Reorganisation”	the capital reorganisation of the Company approved by the Shareholders at the special general meeting of Easyknit Enterprises held on 13 October 2009 and which became effective on 14 October 2009
“Company” or “Easyknit Enterprises”	Easyknit Enterprises Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the securities of which are listed on the main board of the Stock Exchange
“Companies Act”	The Companies Act 1981 of Bermuda (as amended)
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“connected persons”	the meaning ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company
“Easyknit Global”	Easyknit Global Company Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of Easyknit International
“Easyknit International”	Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Easyknit International Group”	Easyknit International and its subsidiaries

DEFINITIONS

“Easyknit Worldwide”	Easyknit Worldwide Company Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of Easyknit International
“Enlarged Group”	the Group immediately after completion of the Transaction
“Existing Issue Mandate”	the existing issue mandate approved by the Shareholders at the annual general meeting of Easyknit Enterprises held on 12 August 2009
“Existing Repurchase Mandate”	the existing repurchase mandate approved by the Shareholders at the annual general meeting of Easyknit Enterprises held on 12 August 2009
“Garment Trading Business”	the garment trading business carried out by the Target Companies, which mainly includes the sourcing and distribution of cotton-based knitted garments for infants, children and women
“General Mandates”	collectively, the Issue Mandate and the Repurchase Mandate
“Grand Profit”	Grand Profit Development Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of Easyknit International
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“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, the PRC
“Independent Board Committee”	the independent board committee of the Company comprising the independent non-executive Directors, namely Mr. Kan Ka Hon, Mr. Lau Sin Ming and Mr. Foo Tak Ching
“Independent Shareholders”	Shareholders other than Landmark Profits and its associates
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries, or their respective associates

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“Independent Valuer”	BMI Appraisals Limited, the independent valuer performing the valuation of the Target Companies.
“Issue Mandate”	the mandate proposed to be sought at the SGM to grant the Directors a general and unconditional mandate to issue, allot and deal with new Shares not exceeding 20% of the nominal amount of the issued share capital of the Company as at the date of the SGM
“Landmark Profits”	Landmark Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Easyknit International, which is the beneficial owner of 116,395,325 Shares, representing approximately 31.70% of the issued Shares of the Company and is a controlling shareholder of the Company
“Last Trading Day”	3 December 2009, being the last trading day before the suspension of trading in the Shares, pending the release of the Announcement
“Latest Practicable Date”	26 January 2010, 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
“Old Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company before the Capital Reorganisation becoming effective
“Pelican Securities” or “Independent Financial Adviser”	Pelican Securities Limited, a corporation licensed to carry out business in type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities under the SFO, which is an Independent Third Party and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Purchaser”	Quick Easy Limited, a company incorporated with limited liability under the laws of the British Virgin Islands, a wholly-owned subsidiary of Easyknit Enterprises
“PRC”	the People’s Republic of China

DEFINITIONS

“Repurchase Mandate”	the mandate proposed to be sought at the SGM to grant the Directors a general and unconditional mandate to exercise all powers of Easyknit Enterprises to repurchase Shares not exceeding 10% of the nominal amount of the issued share capital of Easyknit Enterprises as at the date of the SGM
“Rights Issue”	the rights issue of the Company announced on 25 August 2009 and approved by Shareholders at the special general meeting of Easyknit Enterprises held on 13 October 2009
“Sale and Purchase Agreement”	the sale and purchase agreement dated 3 December 2009 entered into between the Vendor and the Purchaser
“Sale Shares”	2 shares of HK\$1 each in the issued share capital of Easyknit Global, 2 shares of HK\$1 each in the issued share capital of Easyknit Worldwide and 2 shares of HK\$1 each in the issued share capital of Grand Profit, together representing the entire issued share capital of each of Easyknit Global, Easyknit Worldwide and Grand Profit
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held on Wednesday, 17 February 2010 at 10:00 a.m. to consider and, if thought fit, approve the Transaction and the refreshment of the General Mandates
“Shareholder(s)”	holder(s) of Share(s)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	the meaning ascribed thereto in the Listing Rules
“Target Companies”	collectively, Easyknit Global, Easyknit Worldwide and Grand Profit
“Transaction”	the acquisition by the Purchaser, and the sale by (or procured by) the Vendor, of the Sale Shares pursuant to the Sale and Purchase Agreement
“Vendor”	Easyknit Properties Holdings Limited, a company incorporated with limited liability under the laws of the British Virgin Islands and a wholly-owned subsidiary of Easyknit International

DEFINITIONS

“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US” or “United States”	the United States of America
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%” or “per cent.”	percent or per centum

LETTER FROM THE BOARD



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 616)

Executive Directors:

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

Non-executive Director:

Mr. Tse Wing Chiu, Ricky

Independent Non-executive Directors:

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

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

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

29 January 2010

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION AND
VERY SUBSTANTIAL ACQUISITION
IN RELATION TO THE PROPOSED ACQUISITION OF
GARMENT TRADING BUSINESS
AND
PROPOSED REFRESHMENT OF GENERAL MANDATES
TO ISSUE AND REPURCHASE SHARES**

1. INTRODUCTION

On 8 December 2009, the Company announced the proposed very substantial acquisition in relation to the acquisition of the Target Companies from the Vendor and the proposed refreshment of the General Mandates to issue and repurchase Shares.

* *For identification only*

LETTER FROM THE BOARD

Subject to the fulfillment of the relevant conditions pursuant to the Sale and Purchase Agreement, Quick Easy Limited (a wholly-owned subsidiary of the Company) as the Purchaser conditionally agreed to acquire, and Easyknit Properties Holdings Limited (a wholly-owned subsidiary of Easyknit International) as the Vendor conditionally agreed to sell, or procure the sale of, the Sale Shares, representing the entire issued share capital of each of Easyknit Global, Easyknit Worldwide and Grand Profit (which carry on garment trading businesses) for an aggregate consideration of HK\$80 million.

Pursuant to the Listing Rules, as one or more of the applicable percentage ratios of the Transaction exceed 100% for the Company, the Transaction constitutes a very substantial acquisition for the Company. The Vendor is a wholly-owned subsidiary of Easyknit International, which is in turn indirectly interested in approximately 31.70% of the issued share capital of the Company. The Vendor is therefore a connected person of the Company and the Transaction also constitutes a connected transaction for the Company. The Transaction is subject to reporting and announcement requirements under the Listing Rules, and approval of the Independent Shareholders by way of poll at the SGM.

Subject to the approval of by the Shareholders at the SGM, the board of Directors proposes to seek a refreshment of the General Mandates, comprising the Issue Mandate to grant the Directors a general and unconditional mandate to allot, issue and deal with new Shares not exceeding 20% of the nominal amount of the issued share capital of the Company as at the date of the SGM, and the Repurchase Mandate to grant the Directors a general and unconditional mandate to repurchase Shares not exceeding 10% of the nominal amount of the issued share capital of Easyknit Enterprises as at the date of the SGM.

As the Issue Mandate is proposed to be put forward for approval by the Shareholders prior to the next annual general meeting of the Company, pursuant to the Listing Rules, the Issue Mandate will be subject to, inter alia, the approval of the Shareholders by way of poll at the SGM at which the controlling shareholders (being Landmark Profits) and their associates are required to abstain from voting in favour.

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

The purpose of this circular is to provide you with, among other things, (i) information on the proposed Transaction; (ii) information on the proposed refreshment of the General Mandates; (iii) a

LETTER FROM THE BOARD

letter of recommendation from the Independent Board Committee of the Company in respect of the Transaction and the refreshment of the Issue Mandate; (iv) a letter of advice from Pelican Securities dated 29 January 2010 to the Independent Board Committee of the Company and the Independent Shareholders on the Transaction and the refreshment of the Issue Mandate; and (v) notice of the SGM.

2. THE SALE AND PURCHASE AGREEMENT

The major terms of the Sale and Purchase Agreement are summarised as follows:

Date

3 December 2009

Parties

- (1) Vendor: Easyknit Properties Holdings Limited
- (2) Purchaser: Quick Easy Limited

As at the date of the Sale and Purchase Agreement, the Vendor was beneficially interested in the entire issued share capital of each of Easyknit Global, Easyknit Worldwide and Grand Profit. The Vendor is incorporated in the British Virgin Islands and is a wholly-owned subsidiary of Easyknit International and its principal activity is investment holding. The Purchaser, is incorporated in the British Virgin Islands and is a wholly-owned subsidiary of Easyknit Enterprises and its principal activity is investment holding.

Subject matter of the Sale and Purchase Agreement

Pursuant to the Sale and Purchase Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, or procure the sale of, the Sale Shares, representing the entire issued share capital of each of Easyknit Global, Easyknit Worldwide and Grand Profit (which carry on garment trading businesses).

Consideration

The aggregate consideration payable by the Purchaser to the Vendor for the Sale Shares under the Sale and Purchase Agreement is HK\$80 million. All payments shall be made in cash in the following manner:

- (i) a deposit of HK\$30 million was paid upon signing of the Sale and Purchase Agreement; and
- (ii) the remaining balance of HK\$50 million is payable upon the completion of the Transaction.

The consideration for the Transaction was determined and agreed between the parties after arm's length negotiations, taking into account the valuation of the Target Companies as at 31 October 2009 as reported by the Independent Valuer, which amounted to HK\$89.6 million, and the prevailing conditions of the garment trading market. The Independent Valuer's valuation of the Target Companies

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was carried out on the basis of market value, which is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgeably, prudently and without compulsion.

Conditions precedent

Completion of the Transaction is conditional upon:

- (i) the satisfaction of the Purchaser with its due diligence review of the legal and financial affairs of the Target Companies;
- (ii) the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder, by the Shareholders (other than those who are required by the Listing Rules to abstain from voting) as required under the Listing Rules having been obtained; and
- (iii) the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder, by the shareholders of Easyknit International (other than those who are required by the Listing Rules to abstain from voting) as required under the Listing Rules having been obtained.

If the above conditions have not been fulfilled (or in the case of (i) above, waived by the Purchaser) on or before 1 March 2010 (or such other date as may be agreed between the Vendor and Purchaser), and either the Vendor or the Purchaser gives notice to terminate the Sale and Purchase Agreement, the Sale and Purchase Agreement shall terminate and the Vendor shall refund the deposit in full without interest to the Purchaser within five Business Days following the day of termination notice.

Completion

Completion of the Transaction is to take place at 4:30 p.m. on the third Business Day after the above conditions precedent have been fulfilled (or, where applicable, waived).

3. INFORMATION ON THE VENDOR

The Vendor, Easyknit Properties Holdings Limited, is a wholly-owned subsidiary of Easyknit International, which is in turn indirectly interested in approximately 31.7% of the issued share capital of the Company. The Vendor is therefore a connected person of the Company and the Transaction constitutes a connected transaction for the Company. The principal activity of the Vendor is investment holding, while the principal activities of the Easyknit International Group include the sourcing and exporting of cotton-based knitted garments for infants, children and women, property investment and development, investment in securities and loan financing. Upon completion of the Transaction, Easyknit International Group will still own its garment distribution business in the United States.

LETTER FROM THE BOARD

4. INFORMATION ON THE TARGET COMPANIES

The Target Companies

The Target Companies are directly held by the Vendor as at the Latest Practicable Date. The Target Companies carry out the garment trading business of the Easyknit International Group (referred to as the “Garment Trading Business” in this circular).

Easyknit Global is a company incorporated in Hong Kong and has been an indirectly wholly-owned subsidiary of Easyknit International since its incorporation. The issued and paid up capital of Easyknit Global is HK\$2 divided into 2 shares of HK\$1 each. Its principal activity is garment trading.

Easyknit Worldwide is a company incorporated in Hong Kong and has been an indirectly wholly-owned subsidiary of Easyknit International since its incorporation. The issued and paid up capital of Easyknit Worldwide is HK\$2 divided into 2 shares of HK\$1 each. Its principal activity is garment trading.

Grand Profit is a company incorporated in Hong Kong and has been an indirectly wholly-owned subsidiary of Easyknit International since its incorporation. The issued and paid up capital of Grand Profit is HK\$2 divided into 2 shares of HK\$1 each. Its principal activity is garment trading.

Business and operations of the Target Companies

The Target Companies are principally engaged in the sourcing and distribution of cotton-based knitted garments for infants, children and women, including blouses, bodysuits, shorts, rompers, skirts and tops. A breakdown of the aggregate turnover of the Target Companies by product type is set out as follows:

Product	Financial year ended			Six months ended	
	31 March	31 March	31 March	30 September	30 September
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Infant garments	—	97,675	153,258	79,760	85,154
Boys' garments	—	7,521	12,502	5,703	27,880
Girls' garments	1,880	47,600	66,981	29,461	38,907
Men's garments	62	—	—	—	—
Women's garments	48,528	131,165	176,289	73,388	65,053
Others	—	2,265	3,353	1,981	2,662
	<u>50,470</u>	<u>286,226</u>	<u>412,383</u>	<u>190,293</u>	<u>219,656</u>

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The management of the Easyknit International Group advised that each of the Target Companies, namely Easyknit Global, Easyknit Worldwide and Grand Profit, may individually act as a contracting party and enter into garment trading transactions with counterparty buyers. Nevertheless, from an operational perspective of the Garment Trading Business, Easyknit International does not differentiate the garment trading business carried out by each individual Target Companies and therefore there is no specific product or geographical focus for any one of these Target Companies. The Target Companies also share the same management, merchandising, design and quality control teams.

Customers of the Garment Trading Business normally give indicative orders to the Target Companies approximately three to four months in advance of the expected delivery date. Customer representatives meet with the merchandising team periodically (usually four to six times a year) to discuss the expected order sizes, the design and specification of the garments, and the expected delivery schedule for the upcoming season. Generally, there are two types of customers: (i) designer brands which have their own design specifications, and (ii) ODM customers who works in conjunction with the design team on designs based on seasonal fashion trends. The merchandising team identifies garment suppliers, which are normally located in Hong Kong and which have garment manufacturing facilities in the PRC, to supply the garments according to the requested design. The merchandising team serves as the Target Companies' main contact point with the customers, garment suppliers and their manufacturing facilities. For the designer brands, the merchandising team will select the appropriate garment supplier, negotiate the production costs and assist the garment supplier to source the raw materials (as and when necessary) based on the design and order specifications. For the ODM customers, in addition to the services above, the design team will be involved in presenting designs to customers.

Upon confirmation of orders, the Target Companies will enter into contracts with the garment suppliers, which will then arrange the production with their manufacturing facilities. Orders are normally placed approximately two months prior to the scheduled delivery date. The Target Companies make no commitment to the garment suppliers prior to receiving firm orders from its customers. Finished products are inspected by the quality control department and/or customer's quality control representative before delivery. Typically, the garment suppliers are responsible for arranging the export, while the customers are responsible for the import, of the finished products. The shipping department will assist the garment suppliers in handling the delivery of goods according to customers' instructions.

The Target Companies are not directly involved in the manufacturing process (save for quality control procedures as described below) and all negotiations with the garment suppliers and raw material suppliers are conducted on an arm's length basis. Nevertheless, the merchandising team maintains communication with the garment suppliers and their manufacturing facilities from time-to-time and helps them source suppliers and sub-contractors as and when necessary. The top five garment suppliers, from which the Target Companies sourced finished women's, infants' and children's garments, accounted for 99.0%, 80.6% and 85.6% of the total garments sourced by the Target Companies for the financial years ended 31 March 2007, 31 March 2008 and 31 March 2009 respectively. The Target Companies have a core group of eight to ten garment suppliers, which they work closely with to fulfill the orders received from customers. For the financial year ended 31 March

LETTER FROM THE BOARD

2009, none of the garment suppliers individually accounted for more than one-third of the total garments sourced by the Target Companies and the Target Companies are not reliant on any single supplier. The Directors are satisfied that there are many alternative suppliers available to the Target Companies.

The Target Companies generate profits from the Garment Trading Business primarily through price differences of goods purchased from the garment suppliers and sold to the customers. In typical cases, the Target Companies settle payments to the suppliers upon the shipping of the finished goods by the suppliers. Meanwhile, a credit period of 30 days (commencing from the shipping date) will be extended to the customers. The Target Companies are therefore subject to credit risk from the customers. The Directors are of the view that the level of credit risk faced by the Target Companies is manageable as the customers are reputable companies with on-going business relationships and have a good credit history.

To fund working capital requirements and cashflow, the Target Companies have banking facilities in place to finance their needs and these banking facilities are expected to continue upon completion of the Transaction. The Directors do not expect any cash flow problem for the Target Companies' business operations in the foreseeable future.

The following tables set out the gross profit margins of Easyknit Global, Easyknit Worldwide and Grand Profit respectively for the financial years ended 31 March 2007, 31 March 2008, 31 March 2009 and the six months ended 30 September 2009.

Easyknit Global

	Financial year ended			Six months ended
	31 March 2007	31 March 2008	31 March 2009	30 September 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	— <i>(note)</i>	225,958	369,338	208,407
Cost of goods sold	<u>—</u>	<u>(195,998)</u>	<u>(325,471)</u>	<u>(184,664)</u>
Gross profit	<u>—</u>	<u>29,960</u>	<u>43,867</u>	<u>23,743</u>
Gross profit margin	<u>N.A.</u>	<u>13.3%</u>	<u>11.9%</u>	<u>11.4%</u>

Note: Easyknit Global did not have any business activities for the financial year ended 31 March 2007.

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Easyknit Worldwide

	Financial year ended			Six months ended
	31 March	31 March	31 March	30 September
	2007	2008	2009	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	—	15,757	—	—
	<i>(note)</i>		<i>(note)</i>	<i>(note)</i>
Cost of goods sold	—	<u>(13,615)</u>	—	—
Gross profit	—	<u>2,142</u>	—	—
Gross profit margin	<u>N.A.</u>	<u>13.6%</u>	<u>N.A.</u>	<u>N.A.</u>

Note: Easyknit Worldwide did not have any business activities for the financial years ended 31 March 2007 and 31 March 2009 and the six months ended 30 September 2009.

Grand Profit

	Financial year ended			Six months ended
	31 March	31 March	31 March	30 September
	2007	2008	2009	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	50,470	44,511	43,045	11,249
Cost of goods sold	<u>(45,743)</u>	<u>(40,021)</u>	<u>(39,491)</u>	<u>(10,430)</u>
Gross profit	<u>4,727</u>	<u>4,490</u>	<u>3,554</u>	<u>819</u>
Gross profit margin	<u>9.4%</u>	<u>10.1%</u>	<u>8.3%</u>	<u>7.3%</u>

Easyknit Global carries out the majority of the Garment Trading Business of the Easyknit International Group. As illustrated above, the gross profit margins of the Target Companies have been declining from 2008 to 2009. The decrease in gross profit margins in the past year was mainly due to the global economic downturn in 2008 and early 2009, which significantly affected customer demands from the United States and Europe and led to a decrease in selling prices. However, the Directors expect that the recent global economic recovery will have a positive impact on the gross profit margin of the Garment Trading Business as customer demand picks up.

LETTER FROM THE BOARD

While Easyknit Worldwide did not carry out the Garment Trading Business during the financial year ended 31 March 2009 and six months ended 30 September 2009, the Vendor advised that Easyknit Worldwide has been part of the Garment Trading Business since 2007. Although Easyknit Worldwide is not currently actively carrying out the Garment Trading Business, it has done so in the past and will do so in the future if and when required. The valuation of the Garment Trading Business was based on the aggregate profits of the Garment Trading Business for the year ended 31 March 2009, to which Easyknit Worldwide did not contribute. The Company will in fact be acquiring Easyknit Worldwide for no material consideration. The Directors are therefore of the view that the acquisition of Easyknit Worldwide is fair and will provide flexibility for the Group to carry out the Garment Trading Business in the future.

Customers

For the three financial years ended 31 March 2009 and the six months ended 30 September 2009, customers of the Target Companies were mainly from the United States and Europe. The breakdown of turnover of the Garment Trading Business by geographic locations for the financial years ended 31 March 2007, 31 March 2008 and 31 March 2009 and six months ended 30 September 2008 and six months ended 30 September 2009 is as follows:

Geographic location	Financial year ended			Six months ended	
	31 March	31 March	31 March	30 September	30 September
	2007	2008	2009	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
United States	49,249	256,030	364,684	172,099	206,526
Europe	1,221	24,539	34,836	10,354	13,103
Others	—	5,657	12,863	7,840	27
	<u>50,470</u>	<u>286,226</u>	<u>412,383</u>	<u>190,293</u>	<u>219,656</u>

Most of these customers are department stores, major chain stores, retailers and wholesalers which have established on-going business relationships with the Target Companies.

J.C. Penney, a retailer based in the United States, is the single largest customer of the Garment Trading Business, accounting for 59.2%, 68.4% and 80.6% of the aggregate turnover of the Garment Trading Business for the two financial years ended 31 March 2009 and the six months ended 30 September 2009 respectively. Regaliti Inc., an apparel company based in the United States, was the single largest customer of the Garment Trading Business, accounting for 62.9% of the aggregate turnover of the Garment Trading Business for the financial year ended 31 March 2007. Aggregate sales to the top five customers accounted for approximately 100%, 94.9%, 95.6% and 97.4% of the total sales of the Target Companies for three years ended 31 March 2009 and for the six months ended 30 September 2009 respectively.

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The Target Companies do not have a formal sales and marketing team. The merchandising team acquires new customers from time-to-time through referrals from existing customer networks or by directly contacting potential customers by email or telephone.

Quality control

The Target Companies implement quality control procedures to ensure that the raw materials sourced and the garments produced by the garment suppliers' manufacturing facilities meet the quality requirements and specifications of the customers. Specifically, laboratory tests are performed to ensure the quality and safety of the raw materials and final products. The quality control team also performs sample checks on the products at each stage of the production process. In addition, the quality control team liaises with the representatives of the customers to facilitate performance of the customers' own quality control procedures.

Competitive advantages of the Target Companies

Grand Profit, Easyknit Global and Easyknit Worldwide have been conducting the Garment Trading Business for the Easyknit International Group since January 2000, June 2007 and September 2007 respectively, and have established business relationships with customers from the United States and Europe. The Directors believe the Garment Trading Business' competitive advantages include: (i) long-term business relationships with a number of customers; (ii) an experienced design team; and (iii) business relationships with reliable garment suppliers in Hong Kong which provide punctual delivery and products which satisfy the quality control procedures of the Target Companies and those of the customers.

Capital requirements and source of funding

Based on the existing financial information of the Target Companies, the Directors expect that after the elimination of the amounts due to Easyknit International upon completion of the Transaction, the Target Companies can be self-financed as (i) the needs for capital expenditure in performing the Garment Trading Business is not significant; and (ii) the Target Companies will arrange for banking facilities to finance the Target Companies' working capital required to carry on the Garment Trading Business. Therefore, no further capital contribution should be required from the Company for the operations of the Target Companies.

Future development strategy

The Directors expect the Target Companies will continue to carry out the Garment Trading Business, which provides a stable income stream to the Group. The major markets focused on by the Target Companies remain the United States and Europe, which are relatively mature and where the customer demand in the long run is expected to be relatively stable notwithstanding short term fluctuations. The Directors believe this is supported by their historical strong reliance on garment imports from the PRC. Based on the sales of the Garment Trading Business for the six months ended 30 September 2009, however, in the short term the Directors are more optimistic about the United States market than the European market.

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In terms of the product range, the Target Companies will keep their focus in the trading of women and children garments, areas in which they have expertise. Within these markets, the Company intends that the Target Companies will continue to expand their customer base and strengthen the business relationship with current customers. Specifically, in order to expand the customer base, the Target Companies have contacted potential customers through referrals from current customers. They also contact potential customers by email or telephone. The target customers include mid-range ODM customers and designer brands mainly located in the United States, Europe and other markets. Furthermore, the management plans to expand its sales force to strengthen their customer acquisition and retention efforts.

Senior management

Upon completion of the Transaction, Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu, being executive Directors of the Company and executive directors of Easyknit International, will continue to oversee the Garment Trading Business. Ms. Lui Yuk Chu has extensive experience in garment trading and has been involved in the management of Easyknit International as an executive director for 15 years. Meanwhile, Mr. Kwong Jimmy Cheung Tim has focused on the overall strategic development of the Easyknit International Group, including the Garment Trading Business, in the past 2 years. The biographies of the executive Directors are set out in Appendix VIII contained in this circular.

Set out below is the biography of the existing and proposed member of the management of the Target Companies upon completion of Transaction.

Miss Ho Yuen Yi, Tammy

Miss Ho, aged 53, joined Easyknit International Group in 2005 and is currently the Assistant General Manager of Easyknit International. She is responsible for Easyknit International Group's merchandising, shipping and quality control of the Garment Trading Business. Miss Ho has over 24 years of experience in the textiles industry. Upon completion of the Transaction, Miss Ho will assume a management role in the Group and will be responsible for the same aforesaid functions for the Garment Trading Business.

Financial information of the Target Companies

The Target Companies are directly held by the Vendor as at the Latest Practicable Date. Upon completion of the Transaction, the Target Companies will become wholly-owned subsidiaries of the Purchaser. The Company will in turn be indirectly interested in the entire equity interest in the Target Companies. The financial results of the Target Companies will hence be fully consolidated into the financial statements of the Group.

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Easyknit Global

The table below sets out a summary of audited financial information of Easyknit Global prepared in accordance with HKFRS for the two years ended 31 March 2008 and 2009 and the six months ended 30 September 2009, as extracted from Appendix II of this circular:

	Year ended 31 March 2008 <i>HK\$'000</i>	Year ended 31 March 2009 <i>HK\$'000</i>	Six months ended 30 September 2009 <i>HK\$'000</i>
Turnover	225,958	369,338	208,407
Profit before taxation	12,729	9,684	6,608
Profit and total comprehensive income after tax	12,729	9,684	6,608
	As at 31 March 2008 <i>HK\$'000</i>	As at 31 March 2009 <i>HK\$'000</i>	As at 30 September 2009 <i>HK\$'000</i>
Total assets	72,178	79,549	57,655
Total liabilities	159,000	156,687	128,185
Net liabilities	(86,822)	(77,138)	(70,530)

Easyknit Global had net liabilities of HK\$ 70,530,000 as at 30 September 2009 based on its audited financial information for the six months ended 30 September 2009. The net liabilities position of Easyknit Global is mainly attributable to the amount due to Easyknit International, its ultimate holding company. Easyknit International will eliminate this liability before completion of the Transaction.

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Easyknit Worldwide

The table below sets out a summary of audited financial information of Easyknit Worldwide prepared in accordance with HKFRS for the two years ended 31 March 2008 and 2009 and the six months ended 30 September 2009, as extracted from Appendix II of this circular:

	Year ended 31 March 2008 HK\$'000	Year ended 31 March 2009 HK\$'000	Six months ended 30 September 2009 HK\$'000
Turnover	15,757	— <i>(note)</i>	— <i>(note)</i>
Profit/(loss) before taxation	820	(120)	(14)
Profit/(loss) and total comprehensive income (expenses) after tax	820	(120)	(14)
	As at 31 March 2008 HK\$'000	As at 31 March 2009 HK\$'000	As at 30 September 2009 HK\$'000
Total assets	1,846	763	35
Total liabilities	35,921	34,958	34,244
Net liabilities	(34,075)	(34,195)	(34,209)

Note: Easyknit Worldwide did not have any business activities for the financial year ended 31 March 2009 and the six months ended 30 September 2009.

Easyknit Worldwide had net liabilities of HK\$ 34,209,000 as at 30 September 2009 based on its audited financial information for the six months ended 30 September 2009. The net liabilities position of Easyknit Worldwide is mainly attributable to the amount due to Easyknit International, its ultimate holding company. Easyknit International will eliminate this liability before completion of the Transaction.

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Grand Profit

The table below sets out a summary of audited financial information of Grand Profit prepared in accordance with HKFRS for the two years ended 31 March 2008 and 2009 and the six months ended 30 September 2009, as extracted from Appendix II of this circular:

	Year ended 31 March 2008 HK\$'000	Year ended 31 March 2009 HK\$'000	Six months ended 30 September 2009 HK\$'000
Turnover	44,511	43,045	11,249
Profit before taxation	1,849	1,094	152
Profit and total comprehensive income after tax	1,849	1,094	152
	As at 31 March 2008 HK\$'000	As at 31 March 2009 HK\$'000	As at 30 September 2009 HK\$'000
Total assets	4,950	5,213	5,441
Total liabilities	73,405	72,574	72,650
Net liabilities	(68,455)	(67,361)	(67,209)

Grand Profit had net liabilities of HK\$ 67,209,000 as at 30 September 2009 based on its audited financial information for the six months ended 30 September 2009. The net liabilities position of Grand Profit is mainly attributable to the amount due to Easyknit International, its ultimate holding company. Easyknit International will eliminate this liability before completion of the Transaction.

5. INDUSTRY OVERVIEW

Overview of the garment trading industry in PRC and Hong Kong

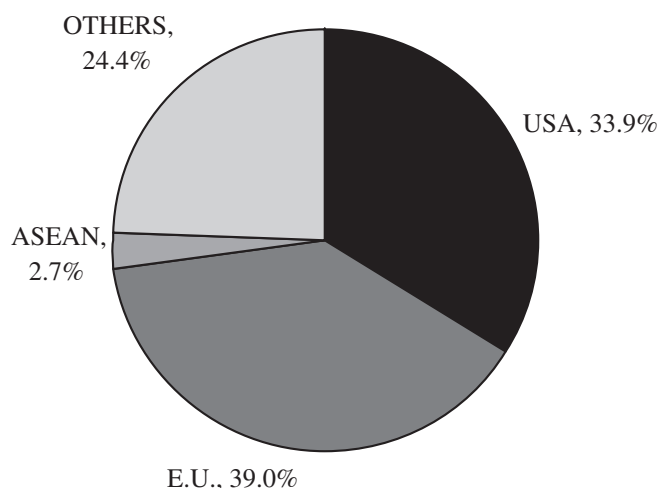
The Target Companies are based in Hong Kong and conduct the Garment Trading Business by sourcing and distributing garments primarily from garment suppliers in Hong Kong, which have garment manufacturing facilities located in the PRC, to customers in the United States and Europe.

Upon the elimination of textile quotas on a global basis since 1 January 2005 as a result of the expiration of the Multi-Fibre Arrangement, the volume of garment exports from the PRC grew rapidly, especially to developed regions such as the United States and Europe (generally referred as the “European Union”, or the “EU”). Hong Kong’s garment trading/re-export industry has also benefited from the removal of trade quotas as Hong Kong continues to leverage on its position logistics and efficiency as a sourcing hub for textiles and garments. The following sets out the major re-export markets of Hong Kong in 2008 and the first 10 months of 2009.

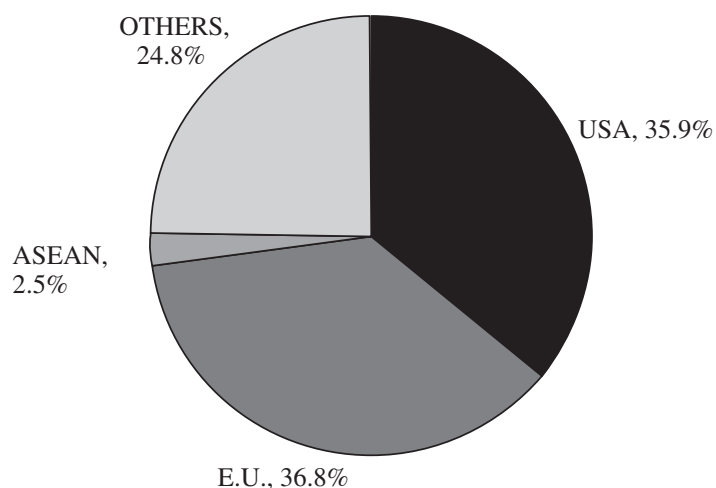
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Hong Kong Re-export of clothing and clothing accessories by regions (SITC 84)

2008



2009 (January to October)



Source: Hong Kong Trading Statistics, Census and Statistics Department

According to the data obtained from Hong Kong Trading Statistics, the United States and Europe remained the major re-export markets of clothing and clothing accessories for Hong Kong, which in aggregate accounted for over 70% of the total re-export volume.

The PRC garment industry has been affected by the adverse global economic downturn in 2009. According to a statement from the Ministry of Industry and Information Technology dated 24 December 2009, the PRC's exports of textiles and garments products fell by 11.4% year-on-year in the first 11 months of 2009 as compared to the same period in 2008 amid weak demand from overseas markets. Notwithstanding, there have been signs of pick up in the fourth quarter of 2009, during which the export figures appeared to have stabilised.

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The Target Companies focus on the United States and Europe markets, which rely heavily on imports from countries such as the PRC.

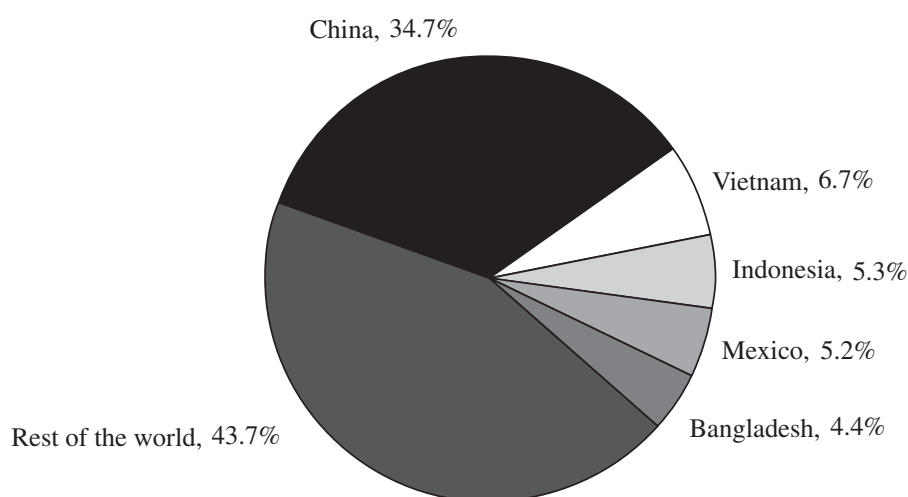
United States market

For the three financial years ended 31 March 2009 and the six months ended 30 September 2009, United States customers accounted for over 88% of the total sales of the Garment Trading Business (among these customers, over 59% of the sales were attributable to a single customer, the US-based J.C. Penney for the two financial years ended 31 March 2009 and the six months ended 30 September 2009 and 62.9% of the sales were attributable to another US-based customer, Regaliti Inc. for the financial year ended 31 March 2007). United States is the second largest importer of clothing, following the EU. According to the data published by the World Trade Organisation, the value of clothing imports for United States amounted to US\$82.5 billion in 2008. The PRC is the second largest trade partner of the United States, with an annual value of total imports of US\$321.4 billion and US\$337.8 billion in 2007 and 2008 respectively.

The volume of import of garments from the PRC increased significantly after the elimination of trade quota on 1 January 2005. In particular, the volume of garment imports from the PRC to the United States increased by more than 80% in the first year after the trade quota was eliminated. The table below sets out the clothing imports volume of United State from major trading partners in 2008:

Top 5 major suppliers of garments to United States (2008)

(Total garment import value: US\$82,464 million)



Source: World Trade Organisation

As illustrated above, the PRC remained the largest supplier country of garment products to the United States market in 2008. However, according to the statistical data of World Trade Organisation, United States recorded no growth in value for garment imports from the PRC in 2008. Meanwhile, countries like Vietnam and Bangladesh recorded double-digit growth in imports value during the same period.

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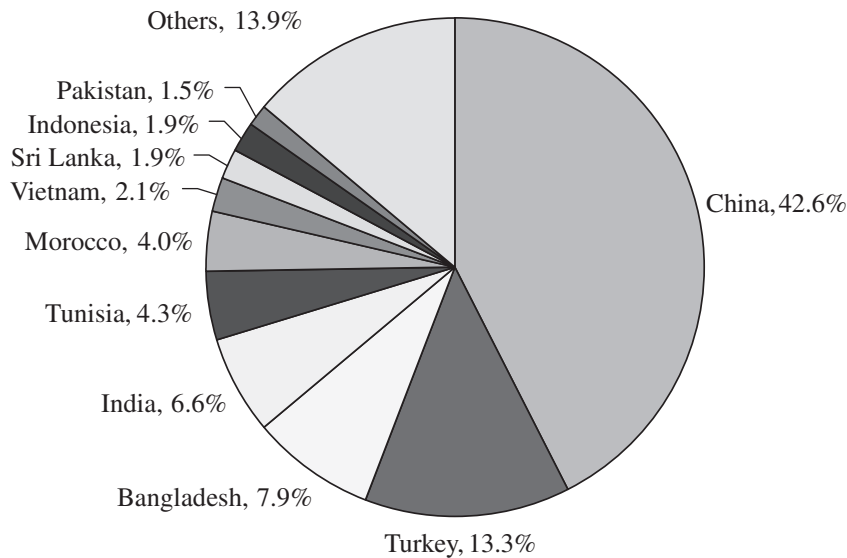
The United States' demand for imported garments is fairly stable but is still sensitive to the prevailing conditions of the economy. Together with the economic downturn hitting the United States in 2008, the volume of garment imports decreased by 3% in 2008 and the demand appeared to be soft in early 2009. However, there were signs of pick up of the demand for garment imports in late 2009 due to, amongst other things, government stimulus plans which drove domestic demands.

European market

Sales to European customers accounted for 8.5% of the total sales of the Garment Trading Business for the financial year ended 31 March 2009. The PRC has been a major trade partner with the EU for years. According to the statistical data from the European Commission, in 2008, the PRC was the largest import partner of the EU, accounting for 16.0% of EU's total import by value. The EU is the largest export partner of the PRC, accounting for 21.0% of the PRC's export by value in 2008.

Set out below is a graph illustrating the major suppliers of clothing to the EU in 2008:

EU's top suppliers of clothing in 2008 by countries
(Total garment import value: €59,433 million)



Source: Eurostat

According to statistical data published by European Commission, clothing products accounted for 10.1%, 10.7% and 10.7% of EU's total imports from the PRC in 2004, 2006 and 2008 respectively. The PRC was the largest exporter of clothing products to the EU with a total export value of approximately €18.9 billion, €21.9 billion and €25.3 billion in 2006, 2007 and 2008 respectively. In 2008, of all clothing imports to the EU (excluding the supply of clothing within the EU-27), 42.6% was from the PRC.

During 2009, the overall demand for imported garments in the EU declined amid the economic downturn in the region. Despite the fall in the total import volume of the EU, the export value for the

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PRC's garments exported to the EU in the first eleven months of 2009 fell by only 6.69% as compared to the export value of garments exported to non-EU and non-US countries which fell by 17.75% for the first ten months of 2009. In comparison to the United States market, the EU market may remain weak due to tightened trade protection, and consequently, the demand for garment imports from the PRC by volume may remain soft in 2010.

Analysis of supply and demand factors

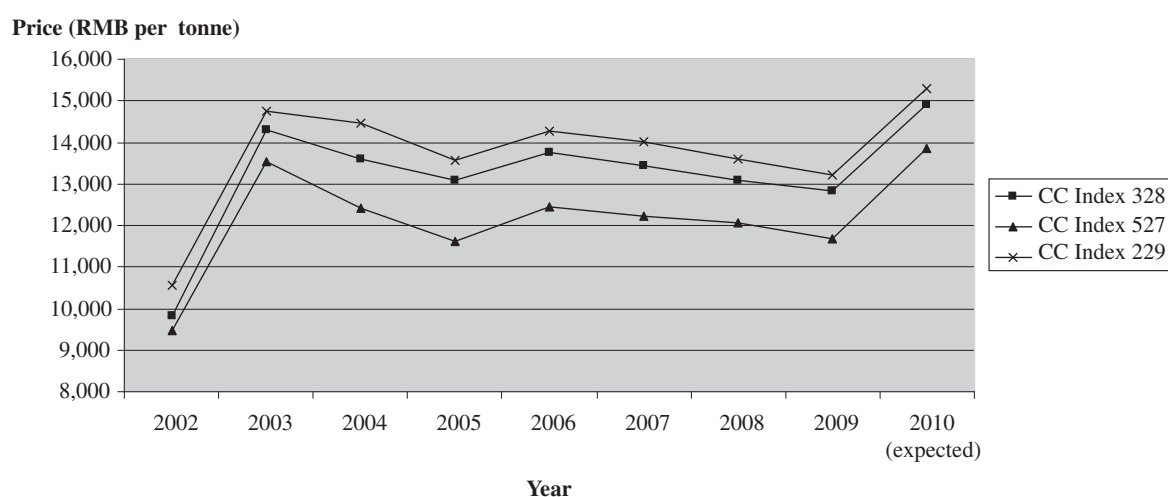
Garment supplier and manufacturer

The Target Companies source garments from suppliers located in Hong Kong, which have garment manufacturing facilities located in the PRC, and re-export the garments primarily to customers located in the United States and Europe. In the past, garment suppliers and/or manufacturers focused on ODM production where they acquired orders from local and overseas buyers or traders and manufactured according to the specification of the end customers. In recent years, large garment suppliers and/or manufacturers started to develop and market products under their own brand names. Despite the aforesaid trend, the number of small-size garment suppliers and manufacturers is still abundant and garment traders like the Target Companies are able to source from a number of different independent garment suppliers and/or manufacturers to fill their orders.

Cotton supply

Cotton is a major raw material for the products traded in the Garment Trading Business. Part of the PRC's demand of cotton has to be fulfilled by imports. While cotton is traded as a commodity in international market, the market prices are different for cotton of different quality and specification. Set out below are the statistics of the cotton price index in the PRC from 2002 to 2009 obtained from the China Cotton Association:

China's Cotton Price Index



Source: China Cotton Association, (CC Index is the cotton price index in the PRC, CC Index 328, CC Index 527, and CC Index 529 refer to the price index of cotton of respective specifications)

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As illustrated in the graph above, there was a downward trend in the cotton prices in the PRC from 2007 to 2009. However, as (i) demand is expected to pick up in both the PRC and international markets amid signs of economic recovery and (ii) the domestic cotton supply of the PRC is expected to be interrupted as a result of the bad weather, the price of cotton in the PRC is expected to rise significantly in 2010. The expected rise in raw material costs may affect the profitability for garment manufacturers and suppliers.

Demand factors

The profits of the Target Companies are derived mainly from the difference between the purchase price of the products from the garment suppliers and the sale price to the end customers. The prices are primarily market-based and are determined according to the prevailing supply and demand, the required quality, the specifications and the volume of the order. The Target Companies normally earn a margin of around 7.3%-13.6%, which is based on arm's length negotiations among the customers and the garment suppliers.

The quality of Chinese garment products has improved in recent years and has attracted demand from new groups of customers such as mid-range designer brands and department stores. These customers generally place greater emphasis on product quality and are willing to trade off the low cost for higher quality. This is a factor in favour of the Target Companies and they have expanded to include customers in this category such as Polo Ralph Lauren Corporation in recent years.

Relevant regulations

As at the Latest Practicable Date, the business operations of the Target Companies were not subject to any specific license requirements, other than those generally applicable to companies and businesses operating in Hong Kong. The Target Companies have obtained all the necessary licenses for its business operations.

6. SOURCE OF FUNDING OF THE PURCHASER

Reference is made to the prospectus for the Rights Issue dated 14 October 2009. The net proceeds from the Rights Issue were approximately HK\$109 million, of which approximately HK\$70 million was originally earmarked to finance potential property acquisitions and approximately HK\$39 million was to be used as working capital. The Group intends to fund the Transaction using proceeds from the Rights Issue originally earmarked to finance potential property acquisitions and the remaining balance of HK\$10 million will be funded from proceeds originally earmarked as working capital. The Group has not identified any suitable property investment opportunities as at the Latest Practicable Date. The Directors believe that the Transaction can provide a stable stream of income for the Group and fits its long-term development plans in the garment industry. The Directors (including the independent non-executive Directors) consider that the change in the aforesaid use of proceeds is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Save for the change in the aforesaid use of proceeds, the Group has no intention to change the use of the remaining proceeds of HK\$29 million from the Rights Issue.

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7. REASONS FOR AND BENEFITS OF THE TRANSACTION

The Target Companies conduct the garment trading business of the Easyknit International Group. The Group was principally engaged in the garment bleaching, dyeing and knitting businesses. As stated in the interim report of the Group for the six months ended 30 September 2009, the board of Directors has expanded the Group's business activities to property investment.

According to the interim report of the Group for the six months ended 30 September 2009, the garment bleaching, dyeing and knitting businesses contributed 99.2% of the Group's total turnover for the six months ended 30 September 2009. These business segments have been loss making since the financial year ended 31 March 2006 and continued to suffer a loss of approximately HK\$10.5 million for the six months ended 30 September 2009. The Group ceased its bleaching, dyeing and knitting operations around the end of November 2009 in order to prevent further losses. The bleaching, dyeing and knitting business of the Group located in Dongguan has become not viable due to operating conditions specific to the location. These include: (i) increasing labour costs in the Dongguan area; (ii) additional capital investment required to meet tightened local environmental regulations for the bleaching and dyeing businesses; and (iii) the uncertainty of the ability to renew operating licenses, which are due to expire in 2011. Notwithstanding the specific problems faced by the Group's Dongguan operations, the Directors are optimistic about the overall garment industry and are open to the option of resuming its bleaching, dyeing and knitting businesses in the future if and when operating conditions in Dongguan or other parts of the PRC are commercially viable.

In respect of its property investment business, the completion of its acquisition of two properties took place in September 2009 and since then up to the Latest Practicable Date, the Group had not identified any suitable property investment opportunities.

The Transaction will enable Easyknit Enterprises to acquire an alternative business in garment trading and allow the Group to continue with the utilization of its management expertise and customer networks in the garment industry. Based on their operating history, the Target Companies are expected to provide a stable source of revenue and profit for the Group in the longer term. As discussed in "Future development strategy" above, the management will focus on the sourcing and distribution of women's and children garments and expand the customer base within the United States and Europe. The Directors are optimistic that the prospects for the Garment Trading Business will improve when the global economy picks up. The Directors believe the Garment Trading Business will be more attractive than the bleaching, dyeing and knitting businesses (which the Group ceased in November 2009) as: (i) the capital investment for garment trading is lower; (ii) other than those generally applicable to companies and businesses operating in Hong Kong the Garment Trading Business is not subject to any regulatory constraint (whereas the bleaching, dyeing and knitting businesses are subject to environmental regulations and periodic renewal of operating license); and (iii) the Garment Trading Business is less sensitive to volatility of raw material prices.

Easyknit Enterprises will acquire the Target Companies at approximately 11% discount to the valuation as appraised by the Independent Valuer. Based on the aforesaid, the Directors (excluding the independent non-executive Directors whose views is given in the Letter from the Independent Board Committee after taking into account the advice from the Independent Financial Adviser) consider that the Sale and Purchase Agreement is fair and reasonable and on normal commercial terms and that the Transaction is in the interest of the Company and the Shareholders as a whole.

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8. RISK FACTORS

The Directors believe that the Transaction in relation to the acquisition of the Garment Trading Business may present a level of risk exposure to the Group. Shareholders should be aware of the following risk factors, which is not exhaustive, when considering the Transaction:

The Garment Trading Business is dependent on one single largest customer

J.C. Penney is the single largest customer of the Garment Trading Business and sales to J.C. Penney accounted for 0%, 59.2%, 68.4% and 80.6% respectively of the Target Companies' aggregated sales in the three financial years ended 31 March 2009 and six month period ended 30 September 2009.

Although it has been a customer since 2007, the Target Companies have not entered into any long term sales contracts with JC Penney and JC Penney is not obliged to continue placing orders with the Garment Trading Business. In the event that JC Penney ceases its business relationship or reduces the amount of orders with the Garment Trading Business, the business operations and financial performance of the Garment Trading Business will be adversely affected.

Orders of the Garment Trading Business are on a short-term basis

The Target Companies do not enter into long term sales contracts with its customers, and orders are on a short term basis. The lack of long term contracts means customers may terminate business relationships with the Garment Trading Business at short notices and if a similar volume of replacement business cannot be found, the business operations and financial performance of the Target Companies will be adversely affected.

Sales of the Garment Trading Business are mainly to the United States

Sales of the Garment Trading Business to the United States accounted for 97.6%, 89.5%, 88.4% and 94.0% respectively of the Target Companies' aggregate sales in the three financial years ended 31 March 2009 and six month period ended 30 September 2009. The Garment Trading Business is therefore susceptible to economic cycles in North America and its business operations and financial performance will be adversely affected in the event of economic downturn in North America which affects consumer demand for products of the Garment Trading Business.

The Garment Trading Business is exposed to currency exchange rate fluctuations

Sales of the Garment Trading Business are mainly to the United States and Europe. Sales to the United States are transacted in US dollars while sales to Europe are transacted in Euros and US dollars. Purchases are transacted in Hong Kong dollars, and operating expenses such as staff costs are incurred in Hong Kong dollars. Future fluctuations in currency exchange rates may have a material adverse effect on the financial performance of the Garment Trading Business. The Garment Trading Business currently does not have any hedging arrangement in place to hedge its currency exchange exposure.

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The Garment Trading Business may be affected by the quota measures on textile export promulgated by the Ministry of Commerce

The Ministry of Commerce has since September 2005 promulgated certain rules on quota allocation in respect of the export of certain categories of garment and clothing manufactured in the PRC. While the products of the Garment Trading Business are currently not affected by these rules, there is no assurance that its products will not be subject to quotas in the future. In the event that products of the Garment Trading Business are subject to quotas, and the required quotas are not sufficiently granted by the authorities, the business operations and financial performance of the Garment Trading Business will be adversely affected.

Past tax losses claimed by the Garment Trading Business may not be allowed by tax authorities

Easyknit Global, Easyknit Worldwide and Grand Profit each has accumulated tax losses from their previous property investment activities. The Target Companies have been claiming such tax losses for the Garment Trading Business in the past few years and the tax authorities did not raise objection to such claims. However, as the tax losses are carried forward from previous years, the tax authorities on their discretion may perform tax assessments and challenge such claims in the future. In the event that the tax authorities do not allow such tax losses claimed, the Target Companies will have to pay additional amount of taxes and its financial performance will be adversely affected.

9. MITIGATION OF RISKS

In face of the potential risks identified above, the management intends to mitigate any adverse effects on the Garment Trading Business as follows:

- (i) with regard to the Target Companies' dependence on a single largest customer, namely J.C. Penney, and the fact that orders are made on a short-term basis, the management of the Target Companies plans to expand the customer base in the United States and Europe as discussed in the section headed "Future development strategy" above;
- (ii) in order to the mitigate the risk associated with the reliance on the United States market, the Target Companies will continue to explore and locate new customers in Europe, and if the opportunity exists, the management may consider entering new markets other than the United States and Europe;
- (iii) for currency exchange rate risk, the Target Companies will monitor their currency exchange rate exposures, in particular for sales to Europe which are settled in Euros. As far as the cost is justified, foreign exchange hedging may be sought if currency exchange rate exposure becomes material in the future.

10. FINANCIAL EFFECT OF THE TRANSACTION

Unaudited pro forma financial information of the Enlarged Group is set out in Appendix III of this circular. This unaudited pro forma financial information is prepared on the basis set out in page III-1 of Appendix III to this circular and is prepared to provide information as to how the Transaction

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would affect the relevant financial information of the Enlarged Group for the six months ended 30 September 2009. As it is for illustrative purposes only and because of its nature, it may not give a true picture of the results and financial position of the Enlarged Group for any future financial periods or dates.

Effect on asset position

According to the unaudited pro forma financial information of the Enlarged Group, before the Transaction, the consolidated total assets of the Group were approximately HK\$ 360.8 million and the total liabilities of the Group were approximately HK\$20.2 million as at 30 September 2009. Assuming the Transaction had been completed on 30 September 2009, the total assets and total liabilities of the Enlarged Group would be HK\$427.9 million and HK\$87.3 million respectively as at 30 September 2009.

As a result of the Transaction, the Enlarged Group would recognise a goodwill of HK\$56.4 million. The amount of goodwill is calculated as the difference between the consideration and (i) the net assets of the Target Companies adjusted for the elimination of the amounts due to Easyknit International; and (ii) the transaction costs in connection to the Transaction of approximately HK\$4.0 million.

Effect on earnings

According to the unaudited pro forma financial information of the Enlarged Group, assuming the Transaction had been completed on 1 April 2009, the turnover of the Enlarged Group would increase from HK\$15.3 million to HK\$235.0 million for the six months ended 30 September 2009. The net loss after tax would decrease from HK\$16.0 million to HK\$9.2 million for the same period.

Effect on gearing and working capital

As the Group and the Enlarged Group did not have any bank borrowings as at 30 September 2009, no gearing ratio is presented. According to the unaudited pro forma financial information of the Enlarged Group, before completion of the Transaction, the Group had net current assets of approximately HK\$105.6 million as at 30 September 2009. Assuming the Transaction had been completed on 30 September 2009, the net current assets of the Enlarged Group would decrease to HK\$47.8 million as at 30 September 2009.

Having considered the above, the Directors believe that the Transaction will broaden its revenue base while it will not have any material adverse impact to the financial position of the Group.

11. PROPOSED REFRESHMENT OF GENERAL MANDATES OF EASYKNIT ENTERPRISES TO ISSUE AND REPURCHASE SHARES

The issued share capital of the Company at the time of its 2009 annual general meeting (which was held on 12 August 2009) was HK\$7,342,489, divided into 734,248,900 Old Shares. At the aforesaid annual general meeting, the Shareholders approved, among other things, the Existing Issue Mandate which authorises the Directors to allot, issue and deal with up to 20% of the aggregate

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nominal amount of the share capital of the Company as at that date, equivalent to a maximum of 146,849,780 Old Shares, with an aggregate nominal amount of HK\$1,468,497.80. At the same meeting, the Shareholders also approved the Existing Repurchase Mandate which authorises the Directors to repurchase Shares up to a maximum of 10% of the aggregate nominal amount of the share capital of the Company in issue as at that date, equivalent to a maximum of 73,424,890 Old Shares, with an aggregate nominal amount of HK\$734,248.90.

On 14 October 2009, the Capital Reorganisation became effective, upon which the issued share capital of the Company was consolidated into 73,424,890 Shares with an aggregate nominal amount of HK\$734,248.90 and the corresponding Existing Issue Mandate and Existing Repurchase Mandate were reduced to 14,684,978 Shares and 7,342,489 Shares respectively. Dealings in the Shares issued pursuant to the Rights Issue commenced on 9 November 2009, upon which the issued share capital of the Company was enlarged to 367,124,450 Shares. The Existing Issue Mandate and Existing Repurchase Mandate remained at 14,684,978 Shares and 7,342,489 Shares respectively after the Rights Issue, which represents 4% and 2% of the existing issued share capital of the Company as at the Latest Practicable Date. Both the Existing Issue Mandate and Existing Repurchase Mandate have not been utilized as at the Latest Practicable Date.

To provide flexibility for the Company and the Directors to issue new Shares and repurchase Shares as and when appropriate, the board of Directors of the Company proposes to seek a refreshment of the General Mandates, comprising the Issue Mandate to grant the Directors a general and unconditional mandate to allot, issue and deal with new Shares not exceeding 20% of the nominal amount of the issued share capital of the Company as at the date of the SGM, and the Repurchase Mandate to grant the Directors a general and unconditional mandate to repurchase Shares not exceeding 10% of the nominal amount of the issued share capital of the Company as at the date of the SGM.

As at the Latest Practicable Date, the existing authorised share capital of the Company consists of 20,000,000,000 Shares out of which 367,124,450 Shares are issued and fully paid up. Based on the 367,124,450 Shares in issue and assuming that no further Shares are repurchased or issued prior to the SGM, subject to the passing of the relevant ordinary resolutions to approve the refreshment of the General Mandates at the SGM, the Directors will be authorized to allot, issue and deal with up to 73,424,890 Shares under the Issue Mandate, and to repurchase up to 36,712,445 Shares under the Repurchase Mandate.

The Directors believe the General Mandates are fair and reasonable and the granting of the General Mandates is in the interests of the Company and the Shareholders as a whole. The Directors have no present intention to issue or repurchase any Shares.

An explanatory statement explaining the Repurchase Mandate is set out in Appendix VII to this circular as required by the Listing Rules.

The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the proposed refreshment of the Issue Mandate is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE BOARD

12. LISTING RULES IMPLICATION

Pursuant to the Listing Rules, as one or more of the applicable percentage ratios of the Transaction exceed 100% for the Company, the Transaction constitutes a very substantial acquisition for the Company. The Vendor is a wholly-owned subsidiary of Easyknit International, which is in turn indirectly interested in approximately 31.70% of the issued share capital of the Company. The Vendor is therefore a connected person of the Company and the Transaction constitutes a connected transaction for the Company. On this basis, the Transaction is subject to the reporting and announcement requirements, and approval of the independent Shareholders by way of poll at the SGM.

As the Issue Mandate is proposed to be put forward for approval by the Shareholders prior to the next annual general meeting of the Company, pursuant to the Listing Rules, the Issue Mandate will be subject to, inter alia, the approval of the Shareholders by way of poll at the SGM at which the controlling Shareholder (being Landmark Profits) and its associates are required to abstain from voting in favour.

Exempt continuing connected transactions in relation to office rental paid to Easyknit International Group

For the three financial years ended 31 March 2009 and the six months ended 30 September 2009, the Target Companies shared part of the overhead expenses, such as office rental, general and administration expenses incurred by the Easyknit International Group. Furthermore, Easyknit Global received management fee income from its share of use of facilities with other fellow subsidiaries in the Easyknit International Group and the Group during the same period. According to the audited financial statements of the Target Companies as contained in Appendix II of this circular, the amount of shared rental and overhead expenses for Easyknit Global, Easyknit Worldwide and Grand Profit for the financial years ended 31 March 2008, 31 March 2009 and for the six months ended 30 September 2009 are set out as follows:

		Year ended	Year ended	Six months
		31 March	31 March	ended
		2008	2009	30 September
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Easyknit Global	Rental expense	—	1,275	2,703
	Management fee income from share of use of facilities	317	289	132
Easyknit Worldwide	Rental expense	—	93	—
	Other expenses	—	15	—
Grand Profit	Rental expense	291	251	315
	Other expenses	43	40	49

LETTER FROM THE BOARD

Upon completion of the Transaction, the Target Companies will become indirectly wholly-owned subsidiaries of the Company. The Target Companies will continue to rent office premises and pay rental expense to the Easyknit International Group in their normal course of business. The amount of rental expenses will amount to approximately HK\$2,640,000 per annum. The transaction in relation to the office rental paid to Easyknit International Group constitutes continuing connected transactions and is subject to reporting and announcement requirements pursuant to Rule 14A.34 of the Listing Rules.

The Company will comply with Rule 14A.41 of the Listing Rules and make announcement and seek its independent Shareholders' approval, where applicable, should rental payments by the Target Companies to Easyknit International Group in any year exceeds or is expected to exceed the threshold prescribed by Rule 14A.34 of the Listing Rules.

13. THE SGM

A notice convening the SGM to be held at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 10:00 a.m. on Wednesday, 17 February 2010 for the purpose of considering and, if thought fit, approving the Transaction and the refreshment of the General Mandates as set out on pages N-1 to N-4 of this circular.

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

Pursuant to Rule 13.36(4) of the Listing Rules, any controlling shareholders and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the refreshment of the Issue Mandate. Accordingly, Landmark Profits and its associates are required to abstain from voting in favour on the ordinary resolution proposed in connection with the refreshment of the Issue Mandate. In any event, the Company will ensure compliance with Rules 13.40 to 13.42 of the Listing Rules.

A form of proxy for use at the SGM is enclosed. 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 branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the SGM or any adjournment of it, if they so wish.

LETTER FROM THE BOARD

14. VOTING BY POLL

The votes at the SGM will be taken on a poll. The Company will appoint scrutineers to handle vote-taking procedures at the SGM. The results of the poll will be published on the websites of the Stock Exchange and the Company after the SGM in accordance with Rule 13.39 of the Listing Rules.

15. RECOMMENDATION

The Directors (excluding the Independent non-executive Directors, whose views are set out in the letter from the Independent Board Committee, set out on page 33 to 34 of this circular) are of the opinion that the Transaction and refreshment of the General Mandates are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM.

In relation to the Transaction and the refreshment of the Issue Mandate, your attention is drawn to the letter from the Independent Board Committee on pages 33 to 34 and the letter from Pelican Securities, set out on pages 35 to 49 of this circular.

16. ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 616)

29 January 2010

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION AND
VERY SUBSTANTIAL ACQUISITION
IN RELATION TO THE PROPOSED ACQUISITION OF
GARMENT TRADING BUSINESS
AND
PROPOSED REFRESHMENT OF THE ISSUE MANDATE**

We refer to the circular dated 29 January 2010 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall bear the same meanings herein unless the context requires otherwise. We have been appointed as the Independent Board Committee and to advise the Independent Shareholders in respect of the Transaction and refreshment of the Issue Mandate. Pelican Securities has been appointed as the independent financial adviser of the Company to advise us in this respect.

Your attention is drawn to the letter from the Board set out on pages 6 to 32 of the Circular, which sets out information relating to, inter alia, the Transaction and the refreshment of General Mandates. We also draw your attention to the letter from Pelican Securities as set out on pages 35 to 49 of the Circular, which contains its advice to us regarding the Transaction and the refreshment of the Issue Mandate.

Having taken into account the principal factors and reasons considered by and the recommendation of Pelican Securities, the Independent Board Committee considers that (i) the terms of the Transaction to be fair and reasonable in so far as the Independent Shareholders are concerned, and the Transaction is in the interests of the Company and the Shareholders as a whole; (ii) the refreshment of Issue Mandate is fair and reasonable and is in the interests of the Company and

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

the Independent Shareholders as a whole. We therefore recommend you to vote in favour of the resolutions to be proposed at the SGM to approve the Transaction and the refreshment of the Issue Mandate.

Yours faithfully,
For and on behalf of

Independent Board Committee

Kan Ka Hon
*Independent Non-Executive
Director*

Lau Sin Ming
*Independent Non-Executive
Director*

Foo Tak Ching
*Independent Non-Executive
Director*

LETTER FROM PELICAN SECURITIES

Set out below is the text of the letter of advice from Pelican Securities Limited to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this circular.

PELICAN SECURITIES LIMITED



Unit 1502 Cosco Tower, 183 Queen's Road Central, Sheung Wan, Hong Kong

29 January, 2010

The Independent Board Committee and the Independent Shareholders

Easyknit Enterprises Holdings Limited

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

Dear Sirs,

**(1) VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION
AND
(2) REFRESHMENT OF ISSUE MANDATE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transaction and the proposed refreshment of the Issue Mandate. The details of the Transaction and the refreshment of the Issue Mandate, among other things, are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 29 January 2010 (the “**Circular**”), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The SGM will be convened at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 10 a.m. on 17 February 2010 to consider and, if thought fit, approve the resolutions in connection with, inter alia, the Transaction and the refreshment of the Issue Mandate.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Kan Ka Hon, Mr. Lau Sin Ming and Mr. Foo Tak Ching, has been established to advise the Independent Shareholders as to whether the Transaction and the refreshment of the Issue Mandate are fair and reasonable so far as the Independent Shareholders are concerned, whether the Transaction and the refreshment of the Issue Mandate are in the interest of the Company and Shareholders as a

LETTER FROM PELICAN SECURITIES

whole and to make a recommendation as to how Independent Shareholders should vote at the SGM. The appointment of Pelican Securities as the Independent Financial Adviser in respect of the Transaction and the refreshment of the Issue Mandate have been approved by the Independent Board Committee.

In formulating our advice to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors and the Company. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the date of this letter. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps to form a reasonable basis and an informed view for our opinion.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Pelican Securities is to ensure that such information has been correctly and fairly presented and reproduced from the relevant sources.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Transaction and the refreshment of the Issue Mandate to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Information on the Group

The Group is principally engaged in the businesses of garment bleaching, dyeing and knitting. As mentioned in the annual report of the Group for the year ended 31 March 2009, the Company intends to expand its business activities to property investment.

LETTER FROM PELICAN SECURITIES

Set out below is key financial information as extracted from the interim reports of the Company for the six months ended 30 September, 2008 and 2009 and the annual report of the Company for the year ended 31 March, 2009:

	Year ended		Six months ended	
	31 March		30 September	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	<i>(unaudited)</i>
Turnover	59,960	74,923	15,345	23,875
Loss attributable to the Shareholders	(47,457)	(17,811)	(15,967)	(15,405)
Total assets (as at period end)	388,119	333,349	360,797	324,573
Total liabilities (as at period end)	31,539	66,384	20,184	35,348
Net assets (as at period end)	356,580	266,965	340,613	289,225
Bank and cash balance (as at period end)	154,870	139,753	51,148	95,457

Source: Annual report and interim reports of the Company

Financial year ended 31 March 2009 versus financial year ended 31 March 2008

The Group recorded a consolidated turnover of approximately HK\$59,960,000 for the year ended 31 March 2009, representing an approximately 19.97% decrease when compared with the consolidated turnover of approximately HK\$74,923,000 recorded during the year ended 31 March 2008. During the year ended 31 March 2009, the Company also experienced an increase in the consolidated loss attributable to the Shareholders to approximately HK\$47,457,000, an amount which is approximately 166.45% higher than the consolidated loss attributable to the Shareholders of approximately HK\$17,811,000 recorded during the year ended 31 March 2008. The increase in loss was mainly due to the impairments recognised on the decrease in value of the manufacturing assets of the Group and the construction in progress in relation to the Group's garment manufacturing operations in Huzhou City, PRC, respectively, and the allowance made for doubtful debts.

As at 31 March 2009, the Company had consolidated total assets, total liabilities and net assets of approximately HK\$388,119,000, HK\$31,539,000 and HK\$356,580,000 respectively. We note that the Company had bank and cash balances of approximately HK\$154,870,000 as at 31 March 2009.

Six months ended 30 September 2009 versus six months ended 30 September 2008

For the six months ended 30 September 2009, the Group recorded a consolidated turnover of approximately HK\$15,345,000, representing an approximately 35.73% decrease when compared with the consolidated turnover of approximately HK\$23,875,000 recorded during the six months ended 30 September 2008. In addition, the Company recorded consolidated loss attributable to the Shareholders

LETTER FROM PELICAN SECURITIES

to approximately HK\$15,967,000 during the six months ended 30 September 2009, which is approximately 3.65% slightly higher than the consolidated loss attributable to the Shareholders of approximately HK\$15,405,000 recorded during the corresponding period in 2008.

The Company had consolidated total assets, total liabilities and net assets of approximately HK\$360,797,000, HK\$20,184,000 and HK\$340,613,000 respectively as at 30 September 2009. We note that the Company had bank and cash balances of approximately HK\$51,148,000 as at 30 September 2009.

2. Information on the Target Companies

Easyknit Global

Easyknit Global is a company incorporated in Hong Kong and has been an indirectly wholly-owned subsidiary of Easyknit International since its incorporation. The issued and paid up capital of Easyknit Global is HK\$2 divided into 2 shares of HK\$1 each. The principal activity of Easyknit Global is garment trading.

Set out below is the profit and total comprehensive income for the year/period of Easyknit Global as extracted from Appendix II of the Circular which includes its audited accounts for the two years ended 31 March 2008 and 2009 and for the six months ended 30 September 2009.

	Year ended 31 March		Six months ended
	2008	2009	30 September 2009
	HK\$'000	HK\$'000	HK\$'000
Profit and total comprehensive income for the year/period	12,729	9,684	6,608

Based on its audited account for the six months ended 30 September 2009, Easyknit Global had net liabilities of approximately HK\$70,530,000 as at 30 September 2009. The net liabilities position of Easyknit Global is mainly attributable to the amount due to Easyknit International, its ultimate holding company. Easyknit International will eliminate this liability before the completion of the Transaction.

Easyknit Worldwide

Easyknit Worldwide is a company incorporated in Hong Kong and has been an indirectly wholly-owned subsidiary of Easyknit International since its incorporation. The issued and paid up capital of Easyknit Worldwide is HK\$2 divided into 2 shares of HK\$1 each. Easyknit Worldwide is principally engaged in garment trading.

LETTER FROM PELICAN SECURITIES

Set out below is the profit and total comprehensive income for the year/period of Easyknit Worldwide as extracted from Appendix II of the Circular which includes its audited accounts for the two years ended 31 March 2008 and 2009 and for the six months ended 30 September 2009.

	Year ended 31 March		Six months ended
	2008	2009	30 September 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/ (loss) and total comprehensive income / (expense) for the year/period	820	(120)	(14)

Based on its audited account for the six months ended 30 September 2009, Easyknit Worldwide had net liabilities of approximately HK\$34,209,000 as at 30 September 2009. The net liabilities position of Easyknit Worldwide is mainly attributable to the amount due to Easyknit International, its ultimate holding company. Easyknit International will eliminate this liability before the completion of the Transaction.

Grand Profit

Grand Profit is a company incorporated in Hong Kong and has been an indirectly wholly-owned subsidiary of Easyknit International since its incorporation. The issued and paid up capital of Grand Profit is HK\$2 divided into 2 shares of HK\$1 each. The principal activity of Grand Profit is garment trading.

Set out below is the profit and total comprehensive income for the year/period of Grant Profit as extracted from Appendix II of the Circular which includes its audited accounts for the two years ended 31 March 2008 and 2009 and for the six months ended 30 September 2009.

	Year ended 31 March		Six months ended
	2008	2009	30 September 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit and total comprehensive income for the year/period	1,849	1,094	152

Based on its audited account for the six months ended 30 September 2009, Grand Profit had net liabilities of approximately HK\$67,209,000 as at 30 September 2009. The net liabilities position of Grand Profit is mainly attributable to the amount due to Easyknit International, its ultimate holding company. Easyknit International will eliminate this liability before the completion of the Transaction.

LETTER FROM PELICAN SECURITIES

3. Reasons for and benefits of the Transaction

As mentioned in the section of this letter headed “Information on the Group”, the Group has been principally engaging in the businesses of garment bleaching, dyeing and knitting. It has also expanded its business activities to property investment during the six months ended 30 September 2009.

According to the interim report of the Company for the six months ended 30 September, 2009 (the “Interim Report 2009”), the garment bleaching, dyeing and knitting businesses contributed 99.2% of the Group’s total turnover for the period. These business segments have been loss making since the financial year ended 31 March 2006 and continued to suffer a loss of approximately HK\$10.5 million for the six months ended 30 September 2009. As mentioned in the Interim Report 2009, the Board expects that these business segments will continue to be affected by the present adverse global economic condition and accordingly has ceased its bleaching, dyeing and knitting operations around the end of November 2009 to prevent further losses. In respect of its property investment business, the completion of its acquisition of two properties took place in September 2009 and since then up to the Latest Practicable Date, the Group has not identified any suitable property investment opportunities.

As mentioned in the section of this letter headed “Information on the Target Companies”, the Target Companies are principally engaged in garment trading. The Directors advised us, to which we concur, that the Transaction will enable the Company to acquire an alternative business in garment trading and allow the Group to continue with the utilization of its management expertise and customer networks in the garment industry. Based on their operating history as mentioned in the section headed “Information on the Target Companies” of this letter, the Directors expect that the Target Companies would provide a stable source of revenue and profit for the Group in the future.

By aggregating the amounts of turnover and profits of the Target Companies and after adjusting for inter-company transactions, the combined turnover of the Target Companies for the years ended 31 March 2008, 31 March 2009 and for the six months ended 30 September 2009 were HK\$286,226,344, HK\$412,383,096 and HK\$219,656,433 respectively whilst the profits of the Target Companies for the years ended 31 March 2008, 31 March 2009 and for the six months ended 30 September 2009 were HK\$15,398,761, HK\$10,657,753 and HK\$6,745,998 respectively. There also has been a decrease in the gross profit margin in 2008 and 2009 which was mainly attributable to economic downturn in the major target markets of the Target Companies, which led to reduced demand from customers and a decrease in selling prices of garments. Nevertheless, the Target Companies managed to be profitable for the aforementioned periods and their combined profits were sustained in a reasonable range. The management of the Company also believes the drop of gross profit margin could be temporary in nature as there are signs of a stabilizing US economy according to the October 2009 Issue of World Economic Outlook published by the International Monetary Fund. It is also noted that there is at the moment one major customer to the Target Companies, namely JC Penney. Per management of the Company, JC Penny has been trading with the Company since 2007 and has shown good trading and payment records in the past. Coupled with the Group’s existing garment management expertise, the acquisition of these alternative businesses in garment trading will allow the Group and the Target Companies to create synergy and to improved on operational efficiency which could lead to better returns for its shareholders.

LETTER FROM PELICAN SECURITIES

Based on the above considerations, we concur with the Directors' view that the acquisition of the Target Companies could provide a stable source of revenue and profit in the future.

Furthermore, as mentioned in the section of "Terms of the Sale and Purchase Agreement" of this letter, the Company will acquire the Target Companies at an approximately 11% discount to the valuation as appraised by the Independent Valuer.

Therefore and as further explained in the following paragraphs, we are of the view that the Transaction is fair and reasonable and on normal commercial terms and that the Transaction is in the interest of the Company and the Shareholders as a whole.

4. Terms of the Sale and Purchase Agreement

(a) Consideration

The aggregate consideration payable by the Purchaser to the Vendor for the Sale Shares under the Sale and Purchase Agreement is HK\$80 million. All payments shall be made in cash in the following manner:

- (i) a deposit of HK\$30 million was paid upon signing of the Sale and Purchase Agreement; and
- (ii) the remaining balance of HK\$50 million is payable upon the completion of the Transaction.

The consideration for the Transaction was determined and agreed between the parties after arm's length negotiations, taking into account the valuation of the Target Companies as at 31 October 2009 as reported by the Independent Valuer, which amounted to HK\$89.6 million, and the prevailing condition of the garment trading market.

The Valuation Report prepared by the Independent Valuer

Set out in Appendix IV to the Circular is the valuation report prepared by the Independent Valuer (the "Valuation Report"). It is stated in the Valuation Report that the Independent Valuer has been engaged to provide its opinion on the market value of a 100% equity interest in the Target Companies as at 31 October 2009. In the discussion with the Independent Valuer on its work done in arriving at the appraised value of the Target Companies, the Independent Valuer has advised that it has, among other things, (i) interviewed the senior management of the Company; (ii) obtained all relevant financial and operational information in respect of the Target Companies; (iii) performed appropriate research and consultation in order to obtain sufficient statistical figures; (iv) examined all relevant bases and assumptions of both the financial and operational information in respect of the Target Companies; and (v) prepared a business financial model based on generally accepted valuation procedures and methodologies to derive its concluded value.

The Independent Valuer has also stated in the Valuation Report that it has considered the three generally accepted valuation methodologies in the valuation of the Target Companies which are the cost approach, the income approach and the market approach. Among the three approaches, the cost approach was regarded not appropriate in the valuation, as it does not take future growth potential of

LETTER FROM PELICAN SECURITIES

the Target Companies into consideration. The income approach was also considered inadequate in the valuation, as a lot of assumptions would have to be made and any inappropriate assumption would greatly affect the accuracy of the valuation. Therefore, the Independent Valuer determined that the market approach was the most appropriate approach for the valuation of the Target Companies. Due to the lack of comparable transactions, the Independent Valuer has focused mainly on the historical acquisitions undertaken by Li & Fung Limited (“Li & Fung”), which is a leading buying agency for consumer goods, managing the supply chain for retailers and brands worldwide and has committed to pursue its acquisition strategy for years, for the period from 2007 up to now. Among all 18 acquisition transactions of Li & Fung conducted during the period, the Independent Valuer identified five transactions with acquisition targets who are engaged in the similar industry as the Target Companies. The Independent Valuer further selected three transactions out of these five transactions (the “Comparable Transactions”) after taking into account (i) the nature of these five transactions, (ii) the similarity of these five transactions and the Transaction, and (iii) the availability of key parameters for the valuation purposes, i.e. the historical earnings after tax.

Having considered that: (i) garment trading is the principal business of the Target Companies; and (ii) the acquisition targets in the Comparable Transactions identified by the Independent Valuer are also principally engaged in a similar industry, we are of the view that the Independent Valuer’s basis of selection of the Comparable Transactions is appropriate. In conducting its analysis, the Independent Valuer has computed the average amount of the consideration price to earnings after tax of the Comparable Transactions (the “Consideration / Earnings”) in order to determine the market value of the Target Companies. Accordingly, the Independent Valuer has arrived at an average amount of the Consideration/Earnings of approximately 8.41x. In view of that, we have verified the figures used in the Valuation Report by reviewing the relevant circulars and announcement of Li & Fung and did not identify any material discrepancy in the Independent Valuer’s figures. Having reviewed the Valuation Report and interviewed the Independent Valuer with questions we consider appropriate in connection with the bases and assumptions adopted in the Valuation Report, we consider that the bases and assumptions and the valuation methodology adopted in the Valuation Report are fair and reasonable.

In the Valuation Report, the appraised value of the Target Companies as at 31 October 2009 is HK\$89,600,000. The consideration of the Transaction amounting to HK\$80,000,000 is therefore made at an approximately 11% discount to the Independent Valuer’s appraised value of the Target Companies. Given that the Consideration represents a discount of approximately 11% to the Valuation based on the Independent Valuation Report, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

(b) Comparable Company Analysis

In analyzing the fairness and reasonableness of the consideration of the Transaction, we have also performed a search on Bloomberg of all garment trading companies listed on the main board of the Stock Exchange who have customer bases and businesses similar to that of the Target Companies. Based on these criteria, only 2 companies have been identified, namely Far East Holdings International Limited (Stock code: 36) and Ching Hing (Holdings) Limited (Stock code: 692). Due to

LETTER FROM PELICAN SECURITIES

the limited number of companies, they may not form a meaningful population for the comparable company analysis. Furthermore, we noted that both Far East Holdings International Limited and Ching Hing (Holdings) Limited, recorded a net loss for their respective latest financial years and hence the use of a Consideration/Earnings test on them to derive a value would not be appropriate.

In addition, besides the market approach, we have also considered two other generally accepted valuation methodologies, namely the cost approach and the income approach, and for the reasons set out in the paragraph headed “The Valuation Report prepared by the Independent Valuer”, we concur with the Valuer’s view that the market approach would be the most appropriate approach.

As mentioned earlier in the same paragraph headed “The Valuation Report prepared by the Independent Valuer”, we have reviewed the Valuation Report prepared by the Independent Valuer and have assessed the bases and assumptions as well as the valuation methodology adopted in the Valuation Report. After (i) the consideration that both the cost approach and the income approach are not appropriate methods to value the Target Companies (ii) the consideration of the fact that the acquisition targets in the Comparable Transactions identified by the Independent Valuer are also principally engaged in the similar industry; (iii) the verification of the figures used in the Valuation Report by reviewing the relevant circulars and announcement which did not reveal any material discrepancy in the Independent Valuer’s figures; and (iv) the interview with the Independent Valuer with questions we consider appropriate in connection with the bases and assumption adopted in the Valuation Report, we consider that the basis of selection of the Comparable Transactions by the Independent Valuer, as well as the bases and assumptions and the valuation methodology adopted in the Valuation Report are fair and reasonable. As such, we are of the view that the appraised value of the Target Companies based on the average amount of the Consideration/Earnings as computed by the Independent Valuer is fair and reasonable and the consideration of the Transaction at a discount to the valuation as appraised by the Independent Valuer is in the interests of the Company and the Shareholders as a whole.

5. Financial Effects of the Transaction

(a) *Earnings*

As shown in the “Unaudited pro forma statement of comprehensive income of the Enlarged Group for the year ended 30 September 2009” (the “Pro Forma Statement of Comprehensive Income”) set out in Appendix III to the Circular, the Company had loss attributable to the Shareholders of approximately HK\$15,967,000 during the six months ended 30 September 2009. As at the Latest Practicable Date, the Company had 367,124,450 Shares in issue, representing a loss per Share of approximately HK4.35 cents. After the pro forma adjustments, the Enlarged Group would have pro forma loss attributable to the Shareholders of approximately HK\$9,221,000. Immediately after the completion of the Transaction, the pro forma loss per Share would be approximately HK2.51 cents.

Based on the above, the Transaction is expected to have a positive effect on earnings by reducing the Group’s loss attributable to the Shareholders.

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(b) *Net asset value*

As illustrated in the “Unaudited pro forma statement of financial position of the Enlarged Group as at 30 September 2009” (the “Pro Forma Statement of Financial Position”) set out in Appendix III to the Circular, the Group had consolidated net assets of approximately HK\$340,613,000 as at 30 September 2009. With the 367,124,450 Shares in issue as at the Latest Practicable Date, the net asset value per Share is approximately HK\$0.93. After the pro forma adjustments, the Pro Forma Statement of Financial Position illustrates that the pro forma net assets and the pro forma net asset value per Share would remain the same.

(c) *Gearing*

The “gearing ratio” is defined as total debts over total assets. As per the Pro Forma Statement of Financial Position, the Group had no debt as at 30 September 2009 and the Enlarged Group would also have no debt. As such, it is not appropriate to review the gearing ratio.

As mentioned in the Letter from the Board, the Group intends to fund the Transaction using proceeds of approximately HK\$70 million from the Rights Issue originally earmarked to finance potential property acquisitions and the remaining balance of the Transaction of HK\$10 million will be funded from proceeds from the Rights Issue originally earmarked as working capital. Therefore, the Transaction would not impose any need of debt financing on the Group.

(d) *Liquidity*

Based on the Pro Forma Statement of Financial Position, the Group had total current assets and total current liabilities of approximately HK\$125,559,000 and HK\$19,967,000 as at 30 September 2009, representing a current ratio (current assets / current liabilities) of approximately 6.29. The Pro Forma Statement of Financial Position further shows that the Enlarged Group would have total current assets and total current liabilities of approximately HK\$134,943,000 and HK\$87,106,000 which would represent a current ratio of approximately 1.55. This represents a decrease of approximately 75.36% when comparing it with the Group’s current ratio as of 30 September 2009. However, we consider that a current ratio of 1 or above generally indicates that the relevant company is in a healthy financial position as it indicates that the company’s current assets are able to cover the obligations arising out of the current liabilities as they become due.

It should be noted that the aforementioned analysis is for illustrative purposes only and does not purport to represent how the financial position of the Enlarged Group will be upon the completion of the Transaction.

6. **Refreshment of Issue Mandate**

(a) **Background of and reasons for the refreshment of Issue Mandate**

As at the Latest Practicable Date, the authorised share capital of the Company consisted of 20,000,000,000 Shares out of which 367,124,450 Shares were issued and fully paid up. Based on the 367,124,450 Shares in issue and assuming that no further Shares are repurchased or issued prior to the

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SGM, subject to the passing of the relevant ordinary resolutions to approve the refreshment of the General Mandates at the SGM, the Directors will be authorised to allot, issue and deal with up to 73,424,890 Shares under the Issue Mandate, and to repurchase up to 36,712,445 Shares under the Repurchase Mandate.

We understand that the Directors were authorized to allot, issue and deal with new Shares of up to 20% of the aggregate nominal amount of the share capital of the Company as at the date of its 2009 annual general meeting (which was held on 12 August 2009), equivalent to a maximum of 146,849,780 Old Shares, with an aggregate nominal amount of HK\$1,468,497.80. At the same meeting, the Directors were authorized to repurchase Shares up to a maximum of 10% of the aggregate nominal amount of the share capital of the Company in issue as at that date, equivalent to a maximum of 73,424,890 Old Shares, with an aggregate nominal amount of HK\$734,248.90.

Upon the Capital Reorganisation becoming effective on 14 October 2009, the issued share capital of the Company was consolidated into 73,424,890 Shares with an aggregate nominal amount of HK\$734,248.90 and the corresponding Existing Issue Mandate and Existing Repurchase Mandate were reduced to 14,684,978 Shares and 7,342,489 Shares respectively. Upon the completion of the Rights Issue on 3 November 2009, the issued share capital of the Company was enlarged to 367,124,450 Shares. The Existing Issue Mandate and Existing Repurchase Mandate remained at 14,684,978 Shares and 7,342,489 Shares respectively after the Rights Issue, representing 4% and 2% of the existing issued share capital of the Company as at the Latest Practicable Date. Both the Existing Issue Mandate and Existing Repurchase Mandate have not been utilized as at the Latest Practicable Date.

As mentioned above, the corresponding Existing Issue Mandate and Existing Repurchase Mandate were reduced upon the Capital Reorganisation becoming effective on 14 October 2009. Given that the Existing Issue Mandate and Existing Repurchase Mandate was granted in the last annual general meeting of the Company held on 12 August 2009, we were advised by the Directors that the next annual general meeting will not be held until around August 2010, which is about seven months away from the Latest Practicable Date. If the Existing Issue Mandate and Existing Repurchase Mandate are not refreshed in the SGM, the Company will not have sufficient General Mandates, if required to be utilized, until the General Mandates are refreshed in the next annual general meeting.

We understand that it is the Directors' belief that the refreshment of the Issue Mandate will provide the Company with readier access to equity funding when any funding requirement or when any business opportunities arise in the future. It is anticipated that the refreshment of the Issue Mandate could enhance the financing flexibility of the Company to raise equity funding, if and when required, by way of issue of new Shares or other convertible instruments (subject to stock market conditions from time to time) for further development of the Group. In addition, the Directors consider that if investment or acquisition opportunities arise, it is possible that decisions may have to be made within a limited period of time. The Issue Mandate would provide the Group with higher degree of flexibility, allowed under the Listing Rules to issue new Shares or other convertible instruments to raise capital and strengthen the capital base of the Company as consideration or otherwise for such potential investments and/or acquisitions in the future as and when such opportunities arise. However, upon our enquiry, the Directors confirmed that at present there is no concrete proposal for any new investment or acquisition for the Group.

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On the above basis, we consider there are acceptable grounds for the Directors to propose the refreshment of the Issue Mandate to issue Shares in the SGM.

(b) Fund raising activities of the Company

According to the publicly available information and the information provided by the Directors, we summarise the fund raising activities of the Company during the past 12 months immediately preceding the Latest Practicable Date in the following table:

Date of announcement	Description	Net proceeds raised (approximately)	Intended use of proceeds from fund raising	Actual use of proceeds as of the Latest Practicable Date
25 August 2009	Rights Issue on the basis of four rights shares for every Old Share held	HK\$109 million	(i) approximately HK\$70.0 million of the net proceeds from the Rights Issue to finance potential property acquisitions; and (ii) the remaining approximately HK\$39.0 million for the general working capital of the Group	Approximately HK\$70.0 million originally earmarked to finance potential property acquisitions and the remaining balance of HK\$10 million originally earmarked as working capital will be used to fund the Transaction.

As illustrated in the above table, in the past 12 months immediately preceding the Latest Practicable Date, the Company has a successful track record of completing one fund raising exercise involving the Rights Issue on the basis of four rights shares for every Old Share held. As far as the change in the use of proceeds from the Rights Issue illustrated in the above table is concerned, the Directors confirmed that the Group has no present intention to change the use of the remaining proceeds of approximately HK\$29 million from the Rights Issue.

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In view of the above, we consider that it is prudent for the Directors to propose the refreshment of the Issue Mandate in the SGM in order to give the Company greater flexibility in the issuance of Shares in future as and when the Company considers desirable for the benefit of the development of the Company.

(c) Potential dilution to shareholding interests of the Independent Shareholders

Based on information available from public sources and from the Directors, we set out below a table showing the shareholding structure of the Company as at the Latest Practicable Date and upon full utilization of the Issue Mandate:

Name of the Shareholders	As at the date of Latest Practicable Date		Upon full utilization of the Issue Mandate	
	<i>(No. of shares)</i>	<i>%</i>	<i>(No. of shares)</i>	<i>%</i>
Landmark Profits Limited	116,395,325	31.7	116,395,325	26.4
Public	250,729,125	68.3	250,729,125	56.9
Shares which could be issued under Issue Mandate	<u>—</u>	<u>—</u>	<u>73,424,890</u>	<u>16.7</u>
Total	<u><u>367,124,450</u></u>	<u><u>100.0</u></u>	<u><u>440,549,340</u></u>	<u><u>100.0</u></u>

Assuming that (i) the Issue Mandate will be approved at the SGM; (ii) no Shares will be repurchased and no new Shares will be issued from the Latest Practicable Date up to the date of the SGM (both dates inclusive); and (iii) upon full utilization of the Issue Mandate, 73,424,890 Shares are to be issued, representing 20% and approximately 16.7% of the existing issued share capital as at the Latest Practicable Date and the enlarged issued share capital of the Company respectively. The aggregate shareholding of the existing public Shareholders of the Company will be diluted from approximately 68.3% to approximately 56.9% upon full utilization of the Issue Mandate.

Taking into consideration that the Issue Mandate will increase the amount of capital which may be raised thereunder and provides more options to the Group for financing further development of its business as well as other investments/acquisitions as and when such opportunities arise and the fact that the shareholding of all the Shareholders will be diluted to the same extent upon any utilization of the Issue Mandate, we consider that the potential dilution to the shareholding of the Shareholders is acceptable.

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RECOMMENDATIONS

Having considered the principal factors discussed above, and in particular the following,

- (i) the garment bleaching, dyeing and knitting businesses which contributed 99.2% of the Group's total turnover for the six months period ended 30 September 2009 have been loss making since the financial year ended 31 March 2006 and continued to suffer a loss of approximately HK\$10.5 million for the six months ended 30 September 2009. As the Board expects that these business segments will continue to be affected by the present adverse global economic condition and the Group has ceased its bleaching, dyeing and knitting operations around the end of November 2009 to prevent further losses;
- (ii) the Target Companies are principally engaged in garment trading and the Transaction will enable the Company to acquire an alternative business in garment trading and allow the Group to continue with the utilization of its management expertise and customer networks in the garment industry;
- (iii) the Target Companies would provide a stable source of revenue and profit for the Group in the future based on the operating history of the Target Companies;
- (iv) the consideration of the Transaction of HK\$80 million is at an approximately 11% discount to the Independent Valuer's appraised value of the Target Companies;
- (v) the basis of selection of the Comparable Transactions by the Independent Valuer, as well as the bases and assumptions and the valuation methodology adopted in the Valuation Report are fair and reasonable. As such, the appraised value of the Target Companies based on the average amount of the Consideration/Earnings as computed by the Independent Valuer is fair and reasonable;
- (vi) the Transaction is expected to have a positive financial impact on the Group by reducing the Group's loss attributable to the Shareholders and the loss per Share;
- (vii) that the Existing Issue Mandate and Existing Repurchase Mandate was granted in the last annual general meeting of the Company held on 12 August 2009 and the next annual general meeting will not be held until around August 2010, which is about seven months after the Latest Practicable Date. If the Existing Issue Mandate and Existing Repurchase Mandate are not to be refreshed in the SGM, the Company will not have sufficient General Mandates, if required to be utilized, until the General Mandates are refreshed in the next annual general meeting; and
- (viii) the refreshment of the Issue Mandate could enhance the financing flexibility of the Company to raise equity funding for further development of the Group and capture potential investments and/or acquisitions in the future as and when such opportunities arise,

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on balance, we are of the opinion that the terms of the Transaction and the refreshment of the Issue Mandate are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the ordinary resolutions to approve the Transaction and the refreshment of Issue Mandate at the SGM.

Yours faithfully,
For and on behalf of
Pelican Securities Limited

Charles Li
Director and CEO

1. FINANCIAL SUMMARY OF THE GROUP

Set out below is a summary of the published results and of the assets and liabilities of the Group for the six months ended 30 September 2009 and the three years ended 31 March 2009, as extracted from the interim report and the annual reports of the Company respectively.

CONSOLIDATED INCOME STATEMENT

	1.4.2009 to 30.9.2009	1.4.2008 to 31.3.2009	1.4.2007 to 31.3.2008	1.4.2006 to 31.3.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	15,345	59,960	74,923	75,964
Cost of sales and services	<u>(17,778)</u>	<u>(61,581)</u>	<u>(65,721)</u>	<u>(74,717)</u>
Gross (loss) profit	(2,433)	(1,621)	9,202	1,247
Other income	612	1,759	1,742	2,667
Other expenses	(143)	(2,263)	(10,702)	(608)
Distribution costs	(133)	(568)	(384)	(424)
Administrative expenses	(8,773)	(15,994)	(15,063)	(15,084)
Write back of allowance for (allowance for) doubtful debts	57	(3,793)	494	2,446
Gain arising on fair value change of investment properties	301	—	—	—
Gain arising from fair value change of investments held for trading	643	344	—	—
Impairment loss recognised in respect of property, plant and equipment	(5,338)	(23,594)	—	—
Finance costs	<u>—</u>	<u>(475)</u>	<u>(268)</u>	<u>(153)</u>
Loss before taxation	(15,207)	(46,205)	(14,979)	(9,909)
Taxation	<u>(760)</u>	<u>(1,252)</u>	<u>(2,832)</u>	<u>(1,572)</u>
Loss for the period/year	<u>(15,967)</u>	<u>(47,457)</u>	<u>(17,811)</u>	<u>(11,481)</u>

CONSOLIDATED BALANCE SHEET

	30.9.2009	31.3.2009	31.3.2008	31.3.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets				
Property, plant and equipment	98,720	106,999	102,831	66,836
Investment properties	96,000	—	—	—
Prepaid lease payments	40,480	40,921	40,667	31,642
Deposits for acquisition of property, plant and equipment	<u>38</u>	<u>38</u>	<u>17,725</u>	<u>16,125</u>
	<u>235,238</u>	<u>147,958</u>	<u>161,223</u>	<u>114,603</u>
Current assets				
Inventories	3,740	6,008	5,818	15,445
Trade and other receivables	59,790	64,346	25,698	44,783
Prepaid lease payments	881	881	857	656
Investments held for trading	—	4,056	—	—
Pledged bank deposits	10,000	10,000	—	—
Bank balances and cash	<u>51,148</u>	<u>154,870</u>	<u>139,753</u>	<u>29,392</u>
	<u>125,559</u>	<u>240,161</u>	<u>172,126</u>	<u>90,276</u>
Current liabilities				
Trade and other payables	13,355	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>6,612</u>	<u>6,068</u>	<u>4,816</u>	<u>1,608</u>
	<u>19,967</u>	<u>31,539</u>	<u>66,384</u>	<u>36,245</u>
Net current assets	<u>105,592</u>	<u>208,622</u>	<u>105,742</u>	<u>54,031</u>
Net assets	<u>340,830</u>	<u>356,580</u>	<u>266,965</u>	<u>168,634</u>
Capital and reserves				
Share capital	7,342	7,342	58,906	39,271
Reserves	<u>333,271</u>	<u>349,238</u>	<u>208,059</u>	<u>129,363</u>
	340,613	356,580	266,965	168,634
Non-current liabilities				
Deferred taxation	<u>217</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>340,830</u>	<u>356,580</u>	<u>266,965</u>	<u>168,634</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>	2009 <i>HK\$'000</i>	2008 <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>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****CONSOLIDATED BALANCE SHEET***At 31 March 2009*

	<i>NOTES</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Non-current assets			
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>
Current assets			
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>
Current liabilities			
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>
Net current assets		<u>208,622</u>	<u>105,742</u>
Net assets		<u>356,580</u>	<u>266,965</u>
Capital and reserves			
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	39,271	164,288	—	53,194	714	7,138	(95,971)	168,634
Exchange differences arising on translation of foreign operations	—	—	—	—	—	10,573	—	10,573
Loss for the year	—	—	—	—	—	—	(17,811)	(17,811)
Total recognised income and expense for the year	—	—	—	—	—	10,573	(17,811)	(7,238)
Equity component of convertible note (see note 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	58,906	246,094	4,128	53,194	714	17,711	(113,782)	266,965
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	7,342	369,309	—	53,194	714	21,178	(95,157)	356,580

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**

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

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

¹ 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.

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

³ Effective for annual periods beginning on or after 1 January 2009.

⁴ Effective for annual periods beginning on or after 1 July 2009.

⁵ Effective for annual periods ending on or after 30 June 2009.

⁶ Effective for annual periods beginning on or after 1 July 2008.

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

⁸ 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>
Financial assets		
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>
Financial liabilities		
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

	Effective interest rate	Less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2009					
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>
	Effective interest rate	Less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2008					
Non-derivative financial liabilities					
Trade and other payables	—	5,857	53	5,910	5,910
Bills payable	—	1,818	—	1,818	1,818
Convertible note	13.08	<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:

	2009	2008
	<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**

	Bleaching and dyeing	Knitting	Eliminations	Consolidated
	<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

	Bleaching and dyeing <i>HK\$'000</i>	Knitting <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS			
Segment assets	77,242	9,854	87,096
Unallocated corporate assets			<u>301,023</u>
Consolidated total assets			<u><u>388,119</u></u>
LIABILITIES			
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

	Bleaching and dyeing <i>HK\$'000</i>	Knitting <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <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>3,793</u>

For the year ended 31 March 2008

(i) Consolidated income statement

	Bleaching and dyeing <i>HK\$'000</i>	Knitting <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <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

	Bleaching and dyeing <i>HK\$'000</i>	Knitting <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS			
Segment assets	58,156	9,747	67,903
Unallocated corporate assets			<u>265,446</u>
Consolidated total assets			<u>333,349</u>
LIABILITIES			
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

	Bleaching and dyeing	Knitting	Unallocated	Consolidated
	<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:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2009	2008	2009	2008
	<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

	2009	2008
	<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>

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FINANCIAL INFORMATION OF THE GROUP
10. LOSS BEFORE TAXATION

	2009	2008
	<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:

	Kwong Jimmy Cheung Tim	Lui Yuk Chu	Tse Wing Chiu, Ricky	Kan Ka Hon	Lau Sin Ming	Foo Tak Ching	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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:

	Kwong Jimmy Cheung Tim	Lui Yuk Chu	Tse Wing Chiu, Ricky	Kan Ka Hon	Lau Sin Ming	Foo Tak Ching	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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:

	2009	2008
	<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	2008
	<i>HK\$'000</i>	<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:

	2009	2008
	<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:

	2009	2008
	<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>
	2009	2008
Number of shares		
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:

	2009	2008
	<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:

	2009 <i>HK\$'000</i>	2008 <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.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST						
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>25,512</u>	<u>2,907</u>	<u>1,480</u>	<u>46,344</u>	<u>76,243</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>26,015</u>	<u>2,915</u>	<u>2,055</u>	<u>84,832</u>	<u>115,817</u>
At 31 March 2009	<u>101,144</u>	<u>26,047</u>	<u>2,894</u>	<u>2,063</u>	<u>15,325</u>	<u>147,473</u>
DEPRECIATION AND IMPAIRMENT						
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>6,944</u>	<u>1,833</u>	<u>630</u>	<u>—</u>	<u>9,407</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>9,677</u>	<u>2,311</u>	<u>998</u>	<u>—</u>	<u>12,986</u>
At 31 March 2009	<u>281</u>	<u>20,416</u>	<u>2,826</u>	<u>1,626</u>	<u>15,325</u>	<u>40,474</u>
CARRYING VALUES						
At 31 March 2009	<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

	2009 <i>HK\$'000</i>	2008 <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

	2009 <i>HK\$'000</i>	2008 <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

	2009 <i>HK\$'000</i>	2008 <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>64,346</u>	<u>25,698</u>

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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:

	2009	2008
	<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>45,895</u>	<u>24,867</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:

	2009	2008
	<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>30,688</u>	<u>11,822</u>

Movement in the allowance for doubtful debts:

	2009	2008
	<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>
	<u>5,038</u>	<u>1,245</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:

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

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>
At 31 March 2009		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>
At 31 March 2009		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

	2009	2008
	<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

	2009	2008
	<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:

	2009	2008
	<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.

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”) ¹	PRC	Registered HK\$11,260,000	—	100%	Bleaching and dyeing
永義紡織(河源)有限公司 (“He Yuan”) ²	PRC	Registered US\$1,000,000	—	100%	Knitting
永義製衣(湖州)有限公司 (“Huzhou Garment”) ³	PRC	Registered US\$14,182,668 (2008: US\$8,634,800)	—	100%	Construction in progress of garment production plant for own use (suspended)
永義紡織(湖州)有限公司 (“Huzhou Knitting”) ⁴	PRC	Registered US\$3,313,846	—	100%	Construction in progress of knitting production plant for own use (suspended)
永義漂染(湖州)有限公司 (“Huzhou Bleaching and Dyeing”) ⁵	PRC	Registered US\$3,009,110	—	100%	Construction in progress of bleaching and dyeing production plant for own use (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.

3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Set out below is a reproduction of the text of the unaudited condensed consolidated financial statements of the Group together with the accompanying notes contained on pages 1 to 15 of the interim report of the Company for the six months ended 31 September 2009.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	NOTES	Six months ended 30 September	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Turnover	3	15,345	23,875
Cost of sales and services		<u>(17,778)</u>	<u>(25,769)</u>
Gross loss		(2,433)	(1,894)
Other income		612	1,143
Distribution costs		(133)	(301)
Administrative expenses		(8,773)	(7,614)
Other expenses		(143)	(1,236)
Write back of allowance for (allowance for) doubtful debts		57	(4,232)
Gain arising on fair value change of investment properties		301	—
Gain arising from fair value change of investments held for trading		643	—
Impairment loss recognised in respect of property, plant and equipment	7	(5,338)	—
Finance costs		<u>—</u>	<u>(475)</u>
Loss before taxation	4	(15,207)	(14,609)
Taxation	5	<u>(760)</u>	<u>(796)</u>
Loss for the period		(15,967)	(15,405)
Exchange differences arising on translation of foreign operations		<u>—</u>	<u>3,501</u>
Total comprehensive income for the period		<u>(15,967)</u>	<u>(11,904)</u>
Basic loss per share	6	<u>HK cents (19.7)</u>	<u>HK cents (166)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2009

	<i>NOTES</i>	30 September 2009 <i>HK\$'000</i> <i>(Unaudited)</i>	31 March 2009 <i>HK\$'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment	7	98,720	106,999
Investment properties	8	96,000	—
Prepaid lease payments	9	40,480	40,921
Deposits for acquisition of property, plant and equipment		<u>38</u>	<u>38</u>
		<u>235,238</u>	<u>147,958</u>
Current assets			
Inventories		3,740	6,008
Trade and other receivables	10	59,790	64,346
Prepaid lease payments	9	881	881
Investments held for trading		—	4,056
Pledged bank deposits		10,000	10,000
Bank balances and cash		<u>51,148</u>	<u>154,870</u>
		<u>125,559</u>	<u>240,161</u>
Current liabilities			
Trade and other payables	11	13,355	23,732
Bills payable	12	—	1,739
Tax payable		<u>6,612</u>	<u>6,068</u>
		<u>19,967</u>	<u>31,539</u>
Net current assets		<u>105,592</u>	<u>208,622</u>
		<u>340,830</u>	<u>356,580</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	<i>NOTES</i>	30 September 2009 <i>HK\$'000</i> <i>(Unaudited)</i>	31 March 2009 <i>HK\$'000</i> <i>(Audited)</i>
Capital and reserves			
Share capital	13	7,342	7,342
Reserves		<u>333,271</u>	<u>349,238</u>
		340,613	356,580
Non-current liabilities			
Deferred taxation	14	<u>217</u>	<u>—</u>
		<u>340,830</u>	<u>356,580</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Share capital	Convertible Share note equity premium reserve	Capital reserve	Contributed surplus	Exchange reserve	Accumulated losses	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2009 (audited)	7,342	369,309	—	53,194	714	21,178	(95,157)	356,580
Loss for the period and total recognised expense for the period	—	—	—	—	—	—	(15,967)	(15,967)
At 30 September 2009 (unaudited)	<u>7,342</u>	<u>369,309</u>	<u>—</u>	<u>53,194</u>	<u>714</u>	<u>21,178</u>	<u>(111,124)</u>	<u>340,613</u>
At 1 April 2008 (audited)	<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 recognised directly in equity	—	—	—	—	—	3,501	—	3,501
Loss for the period	—	—	—	—	—	—	(15,405)	(15,405)
Total recognised income and expense for the period	—	—	—	—	—	3,501	(15,405)	(11,904)
On conversion of convertible note	7,843	30,449	(4,128)	—	—	—	—	34,164
Reduction of capital upon capital reorganisation (see note 13(c))	(66,082)	—	—	—	—	—	66,082	—
At 30 September 2008 (unaudited)	<u>667</u>	<u>276,543</u>	<u>—</u>	<u>53,194</u>	<u>714</u>	<u>21,212</u>	<u>(63,105)</u>	<u>289,225</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Six months ended 30 September	
	2009 <i>HK\$'000</i> <i>(Unaudited)</i>	2008 <i>HK\$'000</i> <i>(Unaudited)</i>
Net cash used in operating activities	<u>(7,149)</u>	<u>(15,106)</u>
Net cash used in investing activities		
Purchase of investment properties	(95,699)	—
Purchase of property, plant and equipment	(1,030)	(20,354)
Increase in pledged bank deposits	—	(10,000)
Other investing cash flows	<u>150</u>	<u>1,119</u>
	<u>(96,579)</u>	<u>(29,235)</u>
Net cash used in financing activities		
Other financing cash flows	<u>—</u>	<u>(61)</u>
Net decrease in cash and cash equivalents	(103,728)	(44,402)
Cash and cash equivalents at beginning of the period	154,870	139,753
Effect of foreign exchange rate changes	<u>6</u>	<u>106</u>
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u><u>51,148</u></u>	<u><u>95,457</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**1. BASIS OF PREPARATION**

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

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2009, except for the adoption of accounting policy for investment properties as follows:

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure, except for the properties transferred from property, plant and equipment, which are measured at fair value at the date of transfer. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in the consolidated statement of comprehensive income in the year in which the item is derecognised.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new or revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April 2009.

HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised) has had no impact on the reported results or financial position of the Group.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard and has not resulted in a redesignation of the Group’s reportable segments (see note 3).

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 24 (Revised)	Related party disclosures ³
HKAS 27 (Revised)	Consolidated and separate financial statements ¹
HKAS 32 (Amendment)	Classification of rights issues ⁴
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters ⁵
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions ⁵
HKFRS 3 (Revised)	Business combinations ¹
HKFRS 9	Financial instruments ⁶
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners ¹
HK(IFRIC) - INT 18	Transfers of assets from customers ⁷

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

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 February 2010.

⁵ Effective for annual periods beginning on or after 1 January 2010.

⁶ Effective for annual periods beginning on or after 1 January 2013.

⁷ Effective for transfers on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is 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. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the chief executive officer, in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. The Group's primary reporting format was business segments comprising three main operating divisions - bleaching and dyeing, knitting and property investment. The directors of the Company consider that the adoption of HKFRS 8 has not changed the identified operating segments for the Group compared to the annual financial statements for the year ended 31 March 2009.

Under HKFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the chief executive officer. The chief executive officer assesses segment profit or loss using a measure of operating profit. The measurement policies the Group used for segment reporting under HKFRS 8 are the same as those used in its HKFRS financial statements, except that certain items are not included in arriving at the segment results of the operating segments (gain arising from fair value change of investments held for trading, income tax expenses and corporate income and expenses).

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

For the six months ended 30 September 2009

	Bleaching and dyeing	Knitting	Property investment	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover					
External	15,000	223	122	—	15,345
Inter-segment	—	7,268	—	(7,268)	—
Total	<u>15,000</u>	<u>7,491</u>	<u>122</u>	<u>(7,268)</u>	<u>15,345</u>
Segment results	<u>(3,417)</u>	<u>(7,109)</u>	<u>416</u>	<u>—</u>	(10,110)
Gain arising from fair value change of investments held for trading					643
Unallocated corporate expenses					<u>(5,740)</u>
Loss before taxation					(15,207)
Taxation					<u>(760)</u>
Loss for the period					<u>(15,967)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

For the six months ended 30 September 2008

	Bleaching and dyeing	Knitting	Property investment	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover					
External	23,789	86	—	—	23,875
Inter-segment	—	16,242	—	(16,242)	—
Total	<u>23,789</u>	<u>16,328</u>	<u>—</u>	<u>(16,242)</u>	<u>23,875</u>
Segment results	<u>(9,379)</u>	<u>(910)</u>	<u>—</u>	<u>—</u>	(10,289)
Unallocated corporate expenses					(3,845)
Finance costs					<u>(475)</u>
Loss before taxation					(14,609)
Taxation					<u>(796)</u>
Loss for the period					<u>(15,405)</u>

4. LOSS BEFORE TAXATION

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation has been arrived at after charging:		
Allowance for inventories (included in cost of sales)	821	—
Amortisation of prepaid lease payments	440	437
Depreciation of property, plant and equipment	2,162	1,842
Total staff costs (including directors' emoluments)	<u>4,471</u>	<u>4,776</u>

5. TAXATION

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	118	—
PRC enterprise income tax	<u>425</u>	<u>796</u>
	543	796
Deferred tax (note 14)	<u>217</u>	<u>—</u>
Tax charge attributable to the Company and its subsidiaries	<u><u>760</u></u>	<u><u>796</u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made for the six months ended 30 September 2008 as the Company and its subsidiaries had no assessable profit for that period.

PRC enterprise income tax is calculated at 25% for the Company's subsidiaries operating in the People's Republic of China ("PRC").

6. BASIC LOSS PER SHARE

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

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the purposes of basic loss per share	<u>(15,967)</u>	<u>(15,405)</u>
		Number of shares
Weighted average number of shares for the purposes of basic loss per share	<u>80,958,284</u>	<u>9,279,143</u>

The denominator for the purpose of calculating basic loss per share for the six months ended 30 September 2009 has been adjusted to reflect the consolidation of shares in October 2009 on the basis of ten shares being consolidated into one share and the rights issue in November 2009 on the basis of four rights shares for every ordinary share.

The denominator for the purpose of calculating basic loss per share for the six months ended 30 September 2008 has been adjusted to reflect the rights issue in January 2009 on the basis of ten rights shares for every ordinary share, the consolidation of shares in October 2009 on the basis of ten shares being consolidated into one share and the rights issue in November 2009 on the basis of four rights shares for every ordinary share.

7. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group spent HK\$1,030,000 on acquisition of property, plant and equipment (the prior period: HK\$20,354,000).

During the current period, the directors conducted a review of the Group's manufacturing assets used in the knitting segment, and determined that a number of those assets were impaired due to the continuous operating loss of the knitting segment. An impairment loss of HK\$5,338,000 has been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30 September 2009 in respect of property, plant and equipment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use.

As disclosed in note 15 to the financial statements for the year ended 31 March 2009 and 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. The directors conducted an impairment review in relation to the completed buildings of HK\$98,522,000 for Huzhou Project and related prepaid lease payments of HK\$41,361,000 as at 30 September 2009. The directors believe that no impairment is considered necessary as the recoverable amount based on estimated fair value less costs to sell 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 9.

8. INVESTMENT PROPERTIES

During the six months ended 30 September 2009, the Group acquired investment properties for a consideration of HK\$95,699,000.

The Group's investment properties are held for rental purposes under operating leases. They were valued by Knight Frank Petty Limited, a firm of independent qualified professional valuers, on market value basis by reference to market evidence of transaction prices for similar properties in the same locations and conditions at 30 September 2009. The gain arising from changes in fair value of the investment properties of HK\$301,000 has been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30 September 2009.

9. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise land use rights situated in the PRC held under medium-term leases. At 30 September 2009, the relevant PRC authority has not vacated certain land of carrying amount of HK\$36,893,000 (31.3.2009: HK\$37,285,000) for use by the Group, HK\$nil (31.3.2009: HK\$21,028,000) of which have yet to be granted the land use rights certificates.

10. TRADE AND OTHER RECEIVABLES

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

	30 September	31 March
	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	4,752	15,259
61 - 90 days	1,512	2,905
Over 90 days	<u>35,254</u>	<u>27,731</u>
Trade receivables	41,518	45,895
Prepayments	167	210
Refundable deposit in respect of construction of equipment	17,967	17,967
Other receivables	<u>138</u>	<u>274</u>
	<u>59,790</u>	<u>64,346</u>

11. TRADE AND OTHER PAYABLES

The aged analysis of trade payables at the end of the reporting period is as follows:

	30 September	31 March
	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	1,330	7,201
61 - 90 days	82	880
Over 90 days	<u>140</u>	<u>45</u>
Trade payables	1,552	8,126
Accruals	10,202	15,106
Rental deposits received	720	—
Other payables	<u>881</u>	<u>500</u>
	<u>13,355</u>	<u>23,732</u>

12. BILLS PAYABLE

At 30 September 2009, there were no outstanding bills payable. At 31 March 2009, all bills payable were aged within 30 days.

13. SHARE CAPITAL

	<i>Notes</i>	Nominal value per share <i>HK\$</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised:				
At 1 April 2008		0.01	20,000,000,000	200,000
Reduction of share capital	(c)(ii)		<u>—</u>	<u>(198,000)</u>
		0.0001	20,000,000,000	2,000
Consolidation of shares	(c)(iii)		<u>(19,800,000,000)</u>	<u>—</u>
		0.01	200,000,000	2,000
Increase	(c)(iv)	0.01	<u>19,800,000,000</u>	<u>198,000</u>
At 31 March 2009 and 30 September 2009		0.01	<u><u>20,000,000,000</u></u>	<u><u>200,000</u></u>
Issued and fully paid:				
At 1 April 2008		0.01	5,890,612,860	58,906
On conversion of convertible note	(a)	0.01	<u>784,375,000</u>	<u>7,843</u>
		0.01	6,674,987,860	66,749
Exercise of share options	(b)	0.01	<u>2,140</u>	<u>—</u>
			6,674,990,000	66,749
Reduction of share capital	(c)(i)		<u>—</u>	<u>(66,082)</u>
		0.0001	6,674,990,000	667
Consolidation of shares	(c)(iii)		<u>(6,608,240,100)</u>	<u>—</u>
		0.01	66,749,900	667
Rights issue of shares	(d)	0.01	<u>667,499,000</u>	<u>6,675</u>
At 31 March 2009 and 30 September 2009		0.01	<u><u>734,248,900</u></u>	<u><u>7,342</u></u>

Notes:

- (a) 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.
- (b) 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.
- (c) 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.
- (d) 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 six months ended 30 September 2008 rank pari passu with the then existing shares in issue in all respects.

14. DEFERRED TAXATION

	Investment properties <i>HK\$'000</i>
At 1 April 2009	—
Charge to the condensed consolidated statement of comprehensive income	217
At 30 September 2009	<u>217</u>

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Name of related party		
Easyknit Global Company Limited	<u>120</u>	<u>120</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.

- (b) Compensation of key management personnel

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

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	<u>1,565</u>	<u>1,545</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.

16. CAPITAL COMMITMENTS

	30 September	31 March
	2009	2009
	<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 condensed consolidated financial statements	<u>962</u>	<u>1,153</u>

17. EVENTS AFTER THE END OF THE INTERIM PERIOD

- (a) As announced by the Company on 25 August 2009, the Company proposed the following:
- (i) reduction of the nominal value of each issued share of the Company from HK\$0.01 each to HK\$0.001 each by cancelling HK\$0.009 paid up share capital for each share in issue (“2009 Issued Capital Reduction”);
 - (ii) a share consolidation pursuant to which every ten issued and unissued then existing shares of HK\$0.001 each shall be consolidated into one consolidated share of HK\$0.01 each;
 - (iii) reduction of the entire amount standing to the credit of the share premium account of the Company to nil (“Share Premium Reduction”);
 - (iv) transfer of the credit amount arising from the 2009 Issued Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company, and the application of the appropriate amounts therein to set off against the total accumulated losses of the Company;
 - (v) the rights issue of 293,699,560 rights shares of HK\$0.01 each at the subscription price of HK\$0.38 per rights share on the basis of four rights shares for every existing ordinary share held.

At the special general meeting of the Company held on 13 October 2009, resolutions approving the above were passed. And the rights shares were allotted on 3 November 2009.

Details of the above are set out, inter alia, in the circular and prospectus of the Company dated 11 September 2009 and 14 October 2009, respectively.

- (b) As announced by the Company on 22 October 2009, the Group acquired certain equity securities listed in Hong Kong, which were classified as investments held for trading, from the market at a consideration of approximately HK\$4.5 million (exclusive of transaction costs).

1. ACCOUNTANTS' REPORT OF EASYKNIT GLOBAL COMPANY LIMITED

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德勤

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29 January 2010

The Directors
Easyknit Enterprises Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Easyknit Global Company Limited (“Easyknit Global”) for each of the three years ended 31 March 2009 and the six months ended 30 September 2009 (the “Relevant Periods”) for inclusion in the circular (the “Circular”) dated 29 January 2010 issued by Easyknit Enterprises Holdings Limited (the “Company”) in connection with, among others, the proposed acquisition of the entire issued share capital of Easyknit Global (the “Easyknit Global Acquisition”).

Easyknit Global is a limited liability company incorporated in Hong Kong. The address of the registered office and the principal place of business of Easyknit Global is Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong. The principal activity of Easyknit Global is garment sourcing and exporting. Easyknit Global was formerly known as Easyknit Trading Company Limited and Perfect Luck Development Limited. Pursuant to a special resolution passed on 10 May 2007 by the shareholders, the company name has been changed from Perfect Luck Development Limited 佳吉發展有限公司 to Easyknit Trading Company Limited 永義貿易有限公司 with effect from 23 May 2007. Pursuant to another special resolution passed on 22 October 2007 by the shareholders, the company name was further changed to Easyknit Global Company Limited 永義環球有限公司 with effect from 31 October 2007.

We have acted as auditor of Easyknit Global for the three years ended 31 March 2009. Audited financial statements of Easyknit Global have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

For the purpose of this report, the directors of Easyknit Global have prepared the management accounts of Easyknit Global for the six months ended 30 September 2009 in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA (the “30 September 2009 Accounts”). We have performed an independent audit on the 30 September 2009 Accounts in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the financial statements of Easyknit Global for the three years ended 31 March 2009 and the 30 September 2009 Accounts (collectively the “Underlying Financial Statements”) in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of Easyknit Global for the Relevant Periods set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards based on the Underlying Financial Statements. No adjustments to the Underlying Financial Statements have been made in preparing our report for inclusion in the Circular.

The directors of Easyknit Global are responsible for the Underlying Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Easyknit Global as at 31 March 2007, 2008 and 2009 and 30 September 2009 and of the results and cash flows of Easyknit Global for the Relevant Periods.

The comparative statement of comprehensive income, statement of changes in equity and statement of cash flows of Easyknit Global for the six months ended 30 September 2008 together with the notes thereon have been extracted from Easyknit Global's management accounts for the same period (the "30 September 2008 Accounts") which were prepared by the directors of Easyknit Global solely for the purpose of this report. We have reviewed the 30 September 2008 Accounts in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review consists principally of making enquiries of the Easyknit Global management and applying analytical procedures to the 30 September 2008 Accounts and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review exclude audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 September 2008 Accounts. On the basis of our review which does not constitute an audit, we are not aware of any material modification that should be made to the 30 September 2008 Accounts.

A. FINANCIAL INFORMATION

Statement of comprehensive income

	NOTES	Year ended 31 March			Six months ended 30 September	
		2007	2008	2009	2008	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(unaudited)
Turnover	6	—	225,958	369,338	171,879	208,407
Cost of sales		—	(195,998)	(325,471)	(149,991)	(184,664)
Gross profit		—	29,960	43,867	21,888	23,743
Other income	7	—	1,500	549	298	307
Distribution and selling expenses		—	(4,383)	(7,397)	(3,541)	(4,088)
Administrative expenses		(14)	(14,348)	(27,335)	(13,633)	(13,354)
(Loss) profit and total comprehensive (expenses) income for the year/period attributable to owners of Easyknit Global	8	(14)	12,729	9,684	5,012	6,608

Statement of financial position

	NOTES	As at 31 March			As at
		2007	2008	2009	30 September
		HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000	
Non-current assets					
Property, plant and equipment	11	<u>—</u>	<u>1,878</u>	<u>1,549</u>	<u>1,323</u>
Current assets					
Inventories	12	—	80	1,113	—
Trade and other receivables	13	—	19,962	30,258	16,064
Bills receivable	14	—	30,826	39,180	37,919
Amounts due from fellow subsidiaries	15	—	1,561	4,593	2,072
Bank balances and cash	16	<u>9</u>	<u>17,871</u>	<u>2,856</u>	<u>277</u>
		<u>9</u>	<u>70,300</u>	<u>78,000</u>	<u>56,332</u>
Current liabilities					
Trade and other payables	17	10	23,079	10,682	21,635
Bills payable	18	—	2,122	9,683	11,633
Amount due to ultimate holding company	19	99,550	132,392	135,594	94,658
Amounts due to fellow subsidiaries	19	<u>—</u>	<u>1,407</u>	<u>728</u>	<u>259</u>
		<u>99,560</u>	<u>159,000</u>	<u>156,687</u>	<u>128,185</u>
Net current liabilities		<u>(99,551)</u>	<u>(88,700)</u>	<u>(78,687)</u>	<u>(71,853)</u>
Net liabilities		<u>(99,551)</u>	<u>(86,822)</u>	<u>(77,138)</u>	<u>(70,530)</u>
Capital and reserves					
Share capital	20	—	—	—	—
Accumulated losses		<u>(99,551)</u>	<u>(86,822)</u>	<u>(77,138)</u>	<u>(70,530)</u>
		<u>(99,551)</u>	<u>(86,822)</u>	<u>(77,138)</u>	<u>(70,530)</u>

Statement of changes in equity

	Attributable to owners of Easyknit Global		
	Share capital	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2006	—	(99,537)	(99,537)
Loss and total comprehensive expense for the year	<u>—</u>	<u>(14)</u>	<u>(14)</u>
At 31 March 2007	—	(99,551)	(99,551)
Profit and total comprehensive income for the year	<u>—</u>	<u>12,729</u>	<u>12,729</u>
At 31 March 2008	—	(86,822)	(86,822)
Profit and total comprehensive income for the year	<u>—</u>	<u>9,684</u>	<u>9,684</u>
At 31 March 2009	—	(77,138)	(77,138)
Profit and total comprehensive income for the period	<u>—</u>	<u>6,608</u>	<u>6,608</u>
At 30 September 2009	<u>—</u>	<u>(70,530)</u>	<u>(70,530)</u>
Unaudited			
At 1 April 2008	—	(86,822)	(86,822)
Profit and total comprehensive income for the period	<u>—</u>	<u>5,012</u>	<u>5,012</u>
At 30 September 2008	<u>—</u>	<u>(81,810)</u>	<u>(81,810)</u>

Statement of cash flows

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Cash flows from operating activities					
(Loss) profit for the year/period	(14)	12,729	9,684	5,012	6,608
Adjustments for:					
Interest income	—	(67)	(92)	(72)	(87)
Depreciation of property, plant and equipment	—	362	466	228	238
Operating cash flows before movements in working capital	(14)	13,024	10,058	5,168	6,759
(Increase) decrease in inventories	—	(80)	(1,033)	(231)	1,113
(Increase) decrease in trade and other receivables	—	(19,962)	(10,296)	(2,509)	14,194
(Increase) decrease in bills receivable	—	(30,826)	(8,354)	4,109	1,261
(Increase) decrease in amounts due from fellow subsidiaries	—	(1,561)	(3,032)	(3,250)	2,521
Increase (decrease) in trade and other payables	1	23,069	(12,397)	(11,242)	10,953
Increase in bills payable	—	2,122	7,561	5,328	1,950
Net cash (used in) from operating activities	(13)	(14,214)	(17,493)	(2,627)	38,751
Cash flows from investing activities					
Interest received	—	67	92	72	87
Purchase of property, plant and equipment	—	(2,240)	(137)	(134)	(12)
Net cash (used in) from investing activities	—	(2,173)	(45)	(62)	75

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash flows from financing activities					
Advances from (repayment to) ultimate holding company	10	32,842	3,202	(12,622)	(40,936)
Advances from (repayment to) fellow subsidiaries	—	1,407	(679)	(1,148)	(469)
Net cash from (used in) financing activities	10	34,249	2,523	(13,770)	(41,405)
Net (decrease) increase in cash and cash equivalents	(3)	17,862	(15,015)	(16,459)	(2,579)
Cash and cash equivalents at beginning of the year/period	12	9	17,871	17,871	2,856
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	9	17,871	2,856	1,412	277

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Easyknit Global was incorporated in Hong Kong as a limited liability company and the principal activity is garment sourcing and exporting. Its immediate holding company is Easyknit Properties Holdings Limited, a company incorporated in the British Virgin Islands. Its ultimate holding company is Easyknit International Holdings Limited ("Easyknit International"), a company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of Easyknit Global is Unit A, 7th Floor, Hong Kong Spinners Buildings, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong.

The Financial Information is presented in Hong Kong dollars ("HK\$" or "HKD"), which is the functional currency of Easyknit Global and is consistent with the presentation currency of the financial information of the Company and its subsidiaries incorporated in the Circular in connection with the Easyknit Global Acquisition.

In preparing the Financial Information, the directors of Easyknit Global have given careful consideration to the future liquidity of Easyknit Global in light of the net liabilities amounting to HK\$70,530,000 as at 30 September 2009. As explained in note 19, subsequent to 30 September 2009, the Board of Directors of Easyknit International passed a board resolution approving the waiver of the sum owed by Easyknit Global to Easyknit International as at 30 September 2009 amounting to HK\$94,658,000, which is included in the statement of financial position as amount due to ultimate holding company. The directors of Easyknit Global are satisfied that, after taking into consideration the effect of this waiver of intercompany debt, Easyknit Global will be able to meet in full its financial obligations as they fall due for the foreseeable future.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT"s) (hereinafter collectively referred to as "new and revised HKFRSs") which are effective for Easyknit Global's reporting period beginning on 1 April 2009. For the purposes of preparing and presenting the Financial Information for the Relevant Periods, Easyknit Global has adopted all these new and revised HKFRSs consistently throughout the Relevant Periods.

Easyknit Global has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 24 (Revised)	Related party disclosures ³
HKAS 27 (Revised)	Consolidated and separate financial statements ¹
HKAS 32 (Amendment)	Classification of rights issues ⁴
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters ⁵
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions ⁵
HKFRS 3 (Revised)	Business combinations ¹
HKFRS 9	Financial instruments ⁶
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement ³
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners ¹
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments ⁷

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

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

- ³ Effective for annual periods beginning on or after 1 January 2011.
- ⁴ Effective for annual periods beginning on or after 1 February 2010.
- ⁵ Effective for annual periods beginning on or after 1 January 2010.
- ⁶ Effective for annual periods beginning on or after 1 January 2013.
- ⁷ Effective for annual periods beginning on or after 1 July 2010.

The directors of Easyknit Global anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and financial position of Easyknit Global.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Revenue recognition

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

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

Service income is recognised when services are rendered.

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

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 statement of comprehensive income in the year/period in which the item is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when Easyknit Global 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 at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Easyknit Global's financial assets are classified into loans and receivables.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, amounts due from fellow subsidiaries 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 of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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.

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, the amount of 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 the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, 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

Financial liabilities and equity instruments issued by Easyknit Global 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 Easyknit Global after deducting all of its liabilities. Easyknit Global's financial liabilities are classified as other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, bills payable, amount due to ultimate holding company and amounts due to fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Easyknit Global 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.

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 of assets other than financial assets

At the end of each reporting period, Easyknit Global reviews the carrying amounts of its assets other than financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of such 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/periods. 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/period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years/periods and it further excludes items that are never taxable or deductible. Easyknit Global's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit 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.

Foreign currencies

In preparing the Financial Information of Easyknit Global, transactions in currencies other than the functional currency of Easyknit Global (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which Easyknit Global operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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.

As lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Retirement benefit scheme

Payments to defined contribution retirement benefit scheme and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

4. CAPITAL RISK MANAGEMENT

Easyknit Global manages its capital to ensure that Easyknit Global 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 capital structure of Easyknit Global consists of debt, which include amounts due to group companies as disclosed in note 19, cash and cash equivalents and equity attributable to owners of Easyknit Global, comprising share capital and accumulated losses.

The directors of Easyknit Global review the capital structure on a regular basis. As part of this review, the directors of Easyknit Global consider the cost of capital and the risks associated with the capital. Based on recommendations of the directors of Easyknit Global, Easyknit Global will balance its overall capital structure through new share issues as well as raising of debts.

5. FINANCIAL INSTRUMENTS**Categories of financial instruments**

	As at 31 March			As at 30 September
	2007	2008	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
Loans and receivables				
Trade and other receivables	—	6,796	4,828	5,686
Bills receivable	—	30,826	39,180	37,919
Amounts due from fellow subsidiaries	—	1,561	4,593	2,072
Bank balances and cash	9	17,871	2,856	277
	<u>9</u>	<u>57,054</u>	<u>51,457</u>	<u>45,954</u>
Financial liabilities				
Amortised costs				
Trade and other payables	—	22,563	10,336	20,423
Bills payable	—	2,122	9,683	11,633
Amount due to ultimate holding company	99,550	132,392	135,594	94,658
Amounts due to fellow subsidiaries	—	1,407	728	259
	<u>99,550</u>	<u>158,484</u>	<u>156,341</u>	<u>126,973</u>

Financial risk management objectives and policies

Easyknit Global's major financial instruments include trade and other receivables, bills receivable, amounts due from fellow subsidiaries, bank balances and cash, trade and other payables, bills payable, amount due to ultimate holding

company and amounts due to fellow subsidiaries. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Easyknit Global has sales and purchases denominated in currencies other than the functional currency of Easyknit Global, which exposes Easyknit Global to foreign currency risk.

The carrying amounts of Easyknit Global's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	Assets			As at 30
	As at 31 March			September
	2007	2008	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
United States dollars ("USD")	—	42,114	48,626	44,384
Euro	—	13,922	325	8
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	Liabilities			As at 30
	As at 31 March			September
	2007	2008	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
USD	—	291	186	277
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Sensitivity analysis

Easyknit Global is mainly exposed to the exchange rate risk on HKD against USD and Euro.

The following table details Easyknit Global's sensitivity to a 5% increase and decrease in HKD against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. As HKD is pegged to USD, the financial impact on exchange difference between HKD and USD is expected to be immaterial and therefore no sensitivity analysis has been prepared.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where HKD weaken 5% against Euro. For a 5% strengthening of HKD against Euro, there would be an equal and opposite impact on the profit for the year/period and the balances below would be negative.

	Year ended 31 March			Six months ended
	2007	2008	2009	30 September 2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Increase in profit	—	574	14	—

Easyknit Global 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

Easyknit Global's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. In order to minimise the credit risk, the directors of Easyknit Global continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover overdue debts. In addition, Easyknit Global reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Easyknit Global consider that Easyknit Global's credit risk is significantly reduced.

Easyknit Global has concentration of credit risk in relation to the receivables from fellow subsidiaries amounting to nil, HK\$1,561,000, HK\$4,593,000 and HK\$2,072,000 as at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively. In order to minimise the credit risk, the directors of Easyknit Global have reviewed the recoverable amount of the receivables from fellow subsidiaries at the end of each reporting period to ensure that adequate impairment losses are made for the irrecoverable amount. In this regard, the directors of Easyknit Global consider that Easyknit Global's credit risk is significantly reduced.

The credit risk for bank balances exposed is considered minimal as such amounts are placed with banks with good credit rating.

Liquidity risk

As mentioned in note 1, in the opinion of the directors of Easyknit Global, liquidity risk can be mitigated because Easyknit Global's ultimate holding company has agreed to provide adequate funds to enable Easyknit Global to meet in full its financial obligations as they fall due for the foreseeable future.

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

Liquidity and interest risk tables

	Weighted average interest rate %	On demand HK\$'000	Less than 3 months HK\$'000	Total undiscounted cash flow and carrying amount HK\$'000
At 31 March 2007				
Amount due to ultimate holding company	N/A	99,550	—	99,550
At 31 March 2008				
Trade and other payables	N/A	—	22,563	22,563
Bills payable	N/A	—	2,122	2,122
Amount due to ultimate holding company	N/A	132,392	—	132,392
Amounts due to fellow subsidiaries	N/A	1,407	—	1,407
		<u>133,799</u>	<u>24,685</u>	<u>158,484</u>
At 31 March 2009				
Trade and other payables	N/A	—	10,336	10,336
Bills payable	N/A	—	9,683	9,683
Amount due to ultimate holding company	N/A	135,594	—	135,594
Amounts due to fellow subsidiaries	N/A	728	—	728
		<u>136,322</u>	<u>20,019</u>	<u>156,341</u>
At 30 September 2009				
Trade and other payables	N/A	—	20,423	20,423
Bills payable	N/A	—	11,633	11,633
Amount due to ultimate holding company	N/A	94,658	—	94,658
Amounts due to fellow subsidiaries	N/A	259	—	259
		<u>94,917</u>	<u>32,056</u>	<u>126,973</u>

Fair value

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

The directors of Easyknit Global consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

8. (LOSS) PROFIT FOR THE YEAR/PERIOD

	Year ended 31 March			Six months ended 30	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
(Loss) profit for the year/period has been arrived at after charging:					
Directors' remuneration (<i>note 9</i>)	—	2,049	3,357	1,688	1,799
Other staff costs, including retirement benefits costs	—	8,034	14,791	7,338	7,470
Total staff costs	—	10,083	18,148	9,026	9,269
Auditor's remuneration:					
- current year/period	10	12	90	—	75
- underprovision in prior years/periods	1	2	78	78	60
Cost of inventories recognised as an expense	—	195,998	325,471	149,991	184,664
Depreciation of property, plant and equipment	—	362	466	228	238
Exchange loss, net	—	—	1,014	367	16
Minimum lease payments in respect of operating leases	—	1,859	3,930	1,968	2,095
and after crediting:					
Exchange gain, net	—	976	—	—	—
Interest income					
- banks	—	16	35	35	72
- a third party	—	51	57	37	15

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Information regarding directors' emoluments

Details of emoluments to the directors of Easyknit Global during the Relevant Periods are as follows:

Year ended 31 March 2007

	Lui Yuk Chu <i>HK\$'000</i>	Tse Wing Chiu, Ricky <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	—	—	—
- retirement benefits schemes contributions	—	—	—
Total directors' emoluments	<u>—</u>	<u>—</u>	<u>—</u>

Year ended 31 March 2008

	Lui Yuk Chu <i>HK\$'000</i>	Tse Wing Chiu, Ricky <i>HK\$'000</i> <i>(Note a)</i>	Kwong Jimmy Cheung Tim <i>HK\$'000</i> <i>(Note b)</i>	Total <i>HK\$'000</i>
Fees	—	—	—	—
Other emoluments				
- salaries and other benefits	1,216	419	374	2,009
- retirement benefits schemes contributions	29	5	6	40
Total directors' emoluments	<u>1,245</u>	<u>424</u>	<u>380</u>	<u>2,049</u>

Notes:

- (a) Mr. Tse Wing Chiu, Ricky resigned as a director on 18 December 2007.
- (b) Mr. Kwong Jimmy Cheung Tim was appointed as a director on 18 December 2007.

Year ended 31 March 2009

	Lui Yuk Chu	Kwong Jimmy Cheung Tim	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	2,432	860	3,292
- retirement benefits schemes contributions	<u>54</u>	<u>11</u>	<u>65</u>
Total directors' emoluments	<u>2,486</u>	<u>871</u>	<u>3,357</u>

Six months ended 30 September 2008 (unaudited)

	Lui Yuk Chu	Kwong Jimmy Cheung Tim	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	1,222	434	1,656
- retirement benefits schemes contributions	<u>27</u>	<u>5</u>	<u>32</u>
Total directors' emoluments	<u>1,249</u>	<u>439</u>	<u>1,688</u>

Six months ended 30 September 2009

	Lui Yuk Chu	Kwong Jimmy Cheung Tim	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	1,310	455	1,765
- retirement benefits schemes contributions	<u>28</u>	<u>6</u>	<u>34</u>
Total directors' emoluments	<u>1,338</u>	<u>461</u>	<u>1,799</u>

Information regarding employees' emoluments

The five highest paid individuals of Easyknit Global included nil, three, two, two and two directors for the years ended 31 March 2007, 2008 and 2009 and the six months ended 30 September 2008 and 2009, respectively. The emoluments of the remaining highest paid individuals, not being directors, were as follows:

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Salaries and other benefits	—	1,057	2,730	1,080	1,135
Retirement benefits schemes contributions	—	12	98	30	31
	<u>—</u>	<u>1,069</u>	<u>2,828</u>	<u>1,110</u>	<u>1,166</u>

Their emoluments were within the following bands:

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
				<i>(unaudited)</i>	
Nil to HK\$1,000,000	N/A	2	2	3	3
HK\$1,000,001 to HK\$1,500,000	N/A	—	1	—	—
	<u>N/A</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Relevant Periods, no emoluments was paid by Easyknit Global to the five highest paid individuals, including directors, as an inducement to join or upon joining Easyknit Global or as compensation for loss of office. In addition, during the Relevant Periods, no director waived any emoluments.

10. TAXATION

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate tax rate by 1% to 16.5% effective from the year of assessment 2008/2009. The effect of such decrease has been reflected in measuring the current tax for the year ended 31 March 2009 and the deferred tax balances have also been adjusted to reflect the change in tax rate.

No provision for Hong Kong Profits Tax has been made in the Financial Information during the Relevant Periods as Easyknit Global incurred a tax loss for the year ended 31 March 2007 and the estimated assessable profits for the years ended 31 March 2008 and 2009 and the six months ended 30 September 2008 and 2009 were wholly absorbed by tax losses brought forward.

Taxation for the year/period can be reconciled to the results per the statement of comprehensive income as follows:

	Year ended 31 March			Six months ended 30	
	2007	2008	2009	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
(Loss) profit for the year/period	<u>(14)</u>	<u>12,729</u>	<u>9,684</u>	<u>5,012</u>	<u>6,608</u>
Hong Kong Profits Tax rate	17.5%	17.5%	16.5%	16.5%	16.5%
Tax (credit) charge at applicable tax rate	(2)	2,228	1,598	827	1,090
Tax effect of income not taxable for tax purposes	—	(3)	(6)	(6)	(12)
Tax effect of tax losses not recognised	2	—	—	—	—
Tax effect of utilisation of tax losses previously not recognised	<u>—</u>	<u>(2,225)</u>	<u>(1,592)</u>	<u>(821)</u>	<u>(1,078)</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Details of deferred taxation are set out in note 21.

11. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1 April 2006 and 31 March 2007	—	—	—	—
Additions	64	—	—	64
Transfer from fellow subsidiaries	407	1,768	1	2,176
At 31 March 2008	471	1,768	1	2,240
Additions	108	—	29	137
At 31 March 2009	579	1,768	30	2,377
Additions	12	—	—	12
At 30 September 2009	591	1,768	30	2,389
ACCUMULATED DEPRECIATION				
At 1 April 2006 and 31 March 2007	—	—	—	—
Charge for the year	67	295	—	362
At 31 March 2008	67	295	—	362
Charge for the year	109	353	4	466
At 31 March 2009	176	648	4	828
Charge for the period	58	177	3	238
At 30 September 2009	234	825	7	1,066
CARRYING VALUES				
At 31 March 2007	—	—	—	—
At 31 March 2008	404	1,473	1	1,878
At 31 March 2009	403	1,120	26	1,549
At 30 September 2009	357	943	23	1,323

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Furniture, fixtures and equipment	20%
Motor vehicles	20%
Leasehold improvements	20%

12. INVENTORIES

	As at 31 March			As at 30
	2007	2008	2009	September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Raw materials	—	—	1,113	—
Finished goods	—	80	—	—
	<u>—</u>	<u>80</u>	<u>1,113</u>	<u>—</u>

13. TRADE AND OTHER RECEIVABLES

	As at 31 March			As at 30
	2007	2008	2009	September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Trade receivables	—	6,484	4,468	5,324
Deposits to suppliers	—	13,034	25,306	10,044
Other receivables	—	444	484	696
	<u>—</u>	<u>19,962</u>	<u>30,258</u>	<u>16,064</u>

Easyknit Global allows credit period of up to 90 days to its customers. The aged analysis of trade receivables at the end of each reporting period is as follows:

	As at 31 March			As at 30
	2007	2008	2009	September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
0 to 60 days	—	6,225	4,468	5,289
61 to 90 days	—	224	—	—
Over 90 days	—	35	—	35
	<u>—</u>	<u>6,484</u>	<u>4,468</u>	<u>5,324</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 Easyknit Global's trade receivables balances were debtors with aggregate carrying amount of nil, HK\$1,744,000, HK\$79,000 and HK\$203,000 as at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively, which were past due at the end of each reporting period for which Easyknit Global had not provided for allowance. Easyknit Global did not hold any collateral over these balances.

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

	As at 31 March			As at 30
	2007	2008	2009	September
	HK\$'000	HK\$'000	HK\$'000	2009
Overdue by 1 to 60 days	—	1,710	79	168
Overdue by 61 to 90 days	—	34	—	—
Overdue by over 90 days	—	—	—	35
	<u>—</u>	<u>1,744</u>	<u>79</u>	<u>203</u>

No allowance was made for trade receivables that were past due but not impaired at the end of each reporting period as the amounts were expected to be subsequently recovered after the end of each reporting period.

Easyknit Global's trade and other receivables that are denominated in currencies other than the functional currency of Easyknit Global are set out below:

	As at 31 March			As at 30
	2007	2008	2009	September
	HK\$'000	HK\$'000	HK\$'000	2009
USD	<u>—</u>	<u>3,914</u>	<u>4,392</u>	<u>5,155</u>
Euro	<u>—</u>	<u>2,130</u>	<u>—</u>	<u>—</u>

14. BILLS RECEIVABLE

At the end of each reporting period, the bills receivable are aged within 90 days.

Easyknit Global's bills receivable that are denominated in a currency other than the functional currency of Easyknit Global are set out below:

	As at 31 March			As at 30
	2007	2008	2009	September
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
USD	—	30,826	39,180	37,919

15. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

Easyknit Global's amounts due from fellow subsidiaries that are denominated in a currency other than the functional currency of Easyknit Global are set out below:

	As at 31 March			As at 30
	2007	2008	2009	September
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
USD	—	1,370	2,608	1,147

16. BANK BALANCES AND CASH

	As at 31 March			As at 30
	2007	2008	2009	September
	%	%	%	%
Interest rates of the bank deposits per annum	—	0.01-1.85	0.01-4.20	0.001-0.48

Easyknit Global's bank balances and cash that are denominated in currencies other than the functional currency of Easyknit Global are set out below:

	As at 31 March			As at 30
	2007	2008	2009	September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
USD	—	6,004	2,446	163
Euro	—	11,792	325	8

17. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of nil, HK\$22,178,000, HK\$9,938,000 and HK\$19,911,000 as at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively. The aged analysis of trade payables at the end of each reporting period is as follows:

	As at 31 March			As at 30
	2007	2008	2009	September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
0 - 60 days	—	22,173	9,922	19,906
61 - 90 days	—	5	11	—
Over 90 days	—	—	5	5
	—	22,178	9,938	19,911

Easyknit Global's trade and other payables that are denominated in a currency other than the functional currency of Easyknit Global are set out below:

	As at 31 March			As at 30
	2007	2008	2009	September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
USD	—	291	186	277

18. BILLS PAYABLE

At the end of each reporting period, the bills payable are aged within 30 days.

19. AMOUNTS DUE TO GROUP COMPANIES

The amounts are unsecured, interest-free and repayable on demand.

Subsequent to 30 September 2009, the Board of Directors of Easyknit International passed a board resolution approving the waiver of the sum owed by Easyknit Global to Easyknit International as at 30 September 2009, amounting to HK\$94,658,000.

20. SHARE CAPITAL

As at 1 April 2006,
31 March 2007,
2008 and 2009 and
30 September 2009
HK\$'000

Authorised:	
10,000 ordinary shares of HK\$1 each	10
Issued and fully paid:	
2 ordinary shares of HK\$1 each	—

21. DEFERRED TAXATION

Major deferred tax liabilities and assets recognised and movements thereon are as follows:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 April 2006 and 31 March 2007	—	—	—
Charge (credit) for the year	238	(238)	—
At 31 March 2008	238	(238)	—
Effect of change in tax rate	(14)	14	—
(Credit) charge for the year	(43)	43	—
At 31 March 2009	181	(181)	—
(Credit) charge for the period	(16)	16	—
At 30 September 2009	165	(165)	—

Easyknit Global has unused tax losses of approximately HK\$38,140,000, HK\$26,766,000, HK\$16,857,000 and HK\$10,148,000 as at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of nil, HK\$1,360,000, HK\$1,100,000 and HK\$1,002,000 of such losses at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively. No deferred tax assets had been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams.

22. OPERATING LEASE COMMITMENTS**As lessee**

At the end of each reporting period, Easyknit Global had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 March			As at 30 September
	2007	2008	2009	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	—	—	1,380	2,429
In the second to fifth year inclusive	—	—	230	—
	<u>—</u>	<u>—</u>	<u>1,610</u>	<u>2,429</u>

Operating leases are negotiated for terms from 1 to 2 years.

23. RETIREMENT BENEFITS SCHEMES

Easyknit Global had defined contribution retirement scheme (the "Retirement Scheme") for its employees and the assets of the Retirement Scheme are held under provident funds managed by independent trustees. With effect from 1 December 2000, the Retirement Scheme has become a "Top Up" scheme to supplement the minimum benefit under the mandatory provident fund scheme (the "MPF Scheme") for all the eligible employees of Easyknit Global in Hong Kong.

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.

The aggregate employers' contributions which have been dealt with in the statement of comprehensive income amounted to nil, HK\$353,000, HK\$648,000, HK\$312,000 and HK\$302,000 for the years ended 31 March 2007, 2008 and 2009 and the six months ended 30 September 2008 and 2009, respectively.

At the end of each reporting period, the total amount of forfeited contributions available to reduce the contributions payable in the future years was insignificant.

24. CONTINGENT LIABILITIES

At 31 March 2009, Easyknit Global had given unlimited cross guarantee to a bank to secure general credit facilities amounting to HK\$20,000,000 granted to Easyknit Global and a fellow subsidiary. The outstanding amount of facilities utilised by Easyknit Global amounted to HK\$1,979,000 as at 31 March 2009. No outstanding amount of facilities was utilised by the fellow subsidiary as at 31 March 2009.

The above credit facilities were also guaranteed by Easyknit International and secured by an investment property owned by a fellow subsidiary. The credit facilities were released during the six months ended 30 September 2009.

At 31 March 2009, the fair value of the financial guarantee given to a bank in respect of credit facilities granted to Easyknit Global's fellow subsidiary by such bank at the date of inception is immaterial.

25. RELATED PARTY TRANSACTIONS

- (a) Apart from details of the balances with related parties disclosed in the Financial Information during the Relevant Periods, Easyknit Global entered into following transactions with related parties:

	Year ended 31 March			Six months ended 30	
	2007	2008	2009	September	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to a fellow subsidiary	—	5,212	14,024	8,475	2,758
Administrative fee income from a fellow subsidiary	—	90	108	54	54
Rental expense paid to a fellow subsidiary	—	1,275	2,703	1,363	1,432
Income from share of use of facilities received from fellow subsidiaries	—	157	49	22	12
Income from share of use of facilities received from an associate of a fellow subsidiary	—	160	240	120	120
Transfer of property, plant and equipment from fellow subsidiaries	—	2,176	—	—	—
	<u>—</u>	<u>2,176</u>	<u>—</u>	<u>—</u>	<u>—</u>

- (b) The emolument paid/payable to key management personnel of Easyknit Global is disclosed in note 9.
- (c) Details of cross guarantee given by Easyknit Global to a fellow subsidiary and details of corporate guarantee given by Easyknit International to a bank and legal charge created on a property of a fellow subsidiary for credit facilities granted to Easyknit Global and a fellow subsidiary are disclosed in note 24.

26. SUBSEQUENT EVENTS

There were no significant subsequent events after 30 September 2009.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Easyknit Global subsequent to 30 September 2009.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
 Hong Kong

2. ACCOUNTANTS' REPORT OF EASYKNIT WORLDWIDE COMPANY LIMITED

Deloitte.
德勤

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Hong Kong

29 January 2010

The Directors
Easyknit Enterprises Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Easyknit Worldwide Company Limited (“Easyknit Worldwide”) for each of the three years ended 31 March 2009 and the six months ended 30 September 2009 (the “Relevant Periods”) for inclusion in the circular (the “Circular”) dated 29 January 2010 issued by Easyknit Enterprises Holdings Limited (the “Company”) in connection with, among others, the proposed acquisition of the entire issued share capital of Easyknit Worldwide (the “Easyknit Worldwide Acquisition”).

Easyknit Worldwide is a limited liability company incorporated in Hong Kong. The address of the registered office and the principal place of business of Easyknit Worldwide is Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong. The principal activity of Easyknit Worldwide is garment sourcing and exporting. Easyknit Worldwide was formerly known as Easyknit International Trading Company Limited and Grand Modern Investment Limited. Pursuant to a special resolution passed on 13 June 2007 by the shareholders, the company name has been changed from Grand Modern Investment Limited 湛新投資有限公司 to Easyknit International Trading Company Limited 永義國際貿易有限公司 with effect from 5 July 2007. Pursuant to another special resolution passed on 22 October 2007 by the shareholders, the company name was further changed to Easyknit Worldwide Company Limited with effect from 31 October 2007.

We have acted as auditor of Easyknit Worldwide for the three years ended 31 March 2009. Audited financial statements of Easyknit Worldwide have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

For the purpose of this report, the directors of Easyknit Worldwide have prepared the management accounts of Easyknit Worldwide for the six months ended 30 September 2009 in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA (the “30 September 2009 Accounts”). We have performed an independent audit on the 30 September 2009 Accounts in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the financial statements of Easyknit Worldwide for the three years ended 31 March 2009 and the 30 September 2009 Accounts (collectively the “Underlying Financial Statements”) in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of Easyknit Worldwide for the Relevant Periods set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards based on the Underlying Financial Statements, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The directors of Easyknit Worldwide are responsible for the Underlying Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Easyknit Worldwide as at 31 March 2007, 2008 and 2009 and 30 September 2009 and of the results and cash flows of Easyknit Worldwide for the Relevant Periods.

The comparative statement of comprehensive income, statement of changes in equity and statement of cash flows of Easyknit Worldwide for the six months ended 30 September 2008 together with the notes thereon have been extracted from Easyknit Worldwide's management accounts for the same period (the "30 September 2008 Accounts") which were prepared by the directors of Easyknit Worldwide solely for the purpose of this report. We have reviewed the 30 September 2008 Accounts in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review consists principally of making enquiries of the Easyknit Worldwide management and applying analytical procedures to the 30 September 2008 Accounts and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review exclude audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 September 2008 Accounts. On the basis of our review which does not constitute an audit, we are not aware of any material modification that should be made to the 30 September 2008 Accounts.

A. FINANCIAL INFORMATION

Statement of comprehensive income

	NOTES	Year ended 31 March			Six months ended ended 30 September	
		2007	2008	2009	2008	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	6	—	15,757	—	—	—
Cost of sales		—	(13,615)	—	—	—
Gross profit		—	2,142	—	—	—
Other income	7	—	282	—	—	1
Distribution and selling expenses		—	(514)	—	—	—
Administrative expenses		(14)	(1,090)	(120)	(104)	(15)
(Loss) profit and total comprehensive (expenses) income for the year/period attributable to owners of Easyknit Worldwide	8	(14)	820	(120)	(104)	(14)

Statement of financial position

		As at 31 March		As at 30 September	
	NOTES	2007	2008	2009	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets					
Trade and other receivables	11	—	480	—	—
Amounts due from fellow subsidiaries	12	—	1,221	728	—
Bank balances and cash	13	<u>10</u>	<u>145</u>	<u>35</u>	<u>35</u>
		<u>10</u>	<u>1,846</u>	<u>763</u>	<u>35</u>
Current liabilities					
Other payables and accrued charges	14	11	611	15	10
Amount due to ultimate holding company	15	<u>34,894</u>	<u>35,310</u>	<u>34,943</u>	<u>34,234</u>
		<u>34,905</u>	<u>35,921</u>	<u>34,958</u>	<u>34,244</u>
Net liabilities		<u>(34,895)</u>	<u>(34,075)</u>	<u>(34,195)</u>	<u>(34,209)</u>
Capital and reserves					
Share capital	16	—	—	—	—
Special reserve		2,054	2,054	2,054	2,054
Accumulated losses		<u>(36,949)</u>	<u>(36,129)</u>	<u>(36,249)</u>	<u>(36,263)</u>
		<u>(34,895)</u>	<u>(34,075)</u>	<u>(34,195)</u>	<u>(34,209)</u>

Statement of changes in equity

	Attributable to owners of Easyknit Worldwide			
	Share capital	Special reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2006	—	2,054	(36,935)	(34,881)
Loss and total comprehensive expense for the year	<u>—</u>	<u>—</u>	<u>(14)</u>	<u>(14)</u>
At 31 March 2007	—	2,054	(36,949)	(34,895)
Profit and total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>820</u>	<u>820</u>
At 31 March 2008	—	2,054	(36,129)	(34,075)
Loss and total comprehensive expense for the year	<u>—</u>	<u>—</u>	<u>(120)</u>	<u>(120)</u>
At 31 March 2009	—	2,054	(36,249)	(34,195)
Loss and total comprehensive expense for the period	<u>—</u>	<u>—</u>	<u>(14)</u>	<u>(14)</u>
At 30 September 2009	<u>—</u>	<u>2,054</u>	<u>(36,263)</u>	<u>(34,209)</u>
Unaudited				
At 1 April 2008	—	2,054	(36,129)	(34,075)
Loss and total comprehensive expense for the period	<u>—</u>	<u>—</u>	<u>(104)</u>	<u>(104)</u>
At 30 September 2008	<u>—</u>	<u>2,054</u>	<u>(36,233)</u>	<u>(34,179)</u>

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from (used in) financing activities					
Advances from (repayment to) ultimate holding company	<u>21</u>	<u>416</u>	<u>(367)</u>	<u>(477)</u>	<u>(709)</u>
Net increase (decrease) in cash and cash equivalents	8	135	(110)	(109)	—
Cash and cash equivalents at beginning of the year/period	<u>2</u>	<u>10</u>	<u>145</u>	<u>145</u>	<u>35</u>
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	<u><u>10</u></u>	<u><u>145</u></u>	<u><u>35</u></u>	<u><u>36</u></u>	<u><u>35</u></u>

(unaudited)

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Easyknit Worldwide was incorporated in Hong Kong as a limited liability company and the principal activity is garment sourcing and exporting. Its immediate holding company is Easyknit Properties Holdings Limited, a company incorporated in the British Virgin Islands. Its ultimate holding company is Easyknit International Holdings Limited ("Easyknit International"), a company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of Easyknit Worldwide is Unit A, 7th Floor, Hong Kong Spinners Buildings, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong.

The Financial Information is presented in Hong Kong dollars ("HK\$" or "HKD"), which is the functional currency of Easyknit Worldwide and is consistent with the presentation currency of the financial information of the Company and its subsidiaries incorporated in the Circular in connection with the Easyknit Worldwide Acquisition.

In preparing the Financial Information, the directors of Easyknit Worldwide have given careful consideration to the future liquidity of Easyknit Worldwide in light of the net liabilities amounting to HK\$34,209,000 as at 30 September 2009. As explained in note 15, subsequent to 30 September 2009, the Board of Directors of Easyknit International passed a board resolution approving the waiver of the sum owed by Easyknit Worldwide to Easyknit International as at 30 September 2009 amounting to HK\$34,234,000, which is included in the statement of financial position as amount due to ultimate holding company. The directors of Easyknit Worldwide are satisfied that, after taking into consideration the effect of this waiver of intercompany debt, Easyknit Worldwide will be able to meet in full its financial obligations as they fall due for the foreseeable future.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT"s) (hereinafter collectively referred to as "new and revised HKFRSs") which are effective for Easyknit Worldwide's reporting period beginning on 1 April 2009. For the purposes of preparing and presenting the Financial Information for the Relevant Periods, Easyknit Worldwide has adopted all these new and revised HKFRSs consistently throughout the Relevant Periods.

Easyknit Worldwide has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 24 (Revised)	Related party disclosures ³
HKAS 27 (Revised)	Consolidated and separate financial statements ¹
HKAS 32 (Amendment)	Classification of rights issues ⁴
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters ⁵
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions ⁵
HKFRS 3 (Revised)	Business combinations ¹
HKFRS 9	Financial instruments ⁶
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement ³

HK(IFRIC) - INT 17	Distributions of non-cash assets to owners ¹
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments ⁷

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

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 February 2010.

⁵ Effective for annual periods beginning on or after 1 January 2010.

⁶ Effective for annual periods beginning on or after 1 January 2013.

⁷ Effective for annual periods beginning on or after 1 July 2010.

The directors of Easyknit Worldwide anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and financial position of Easyknit Worldwide.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Revenue recognition

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

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

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.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when Easyknit Worldwide 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 at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Easyknit Worldwide's financial assets are classified into loans and receivables.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from fellow subsidiaries 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 of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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.

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, the amount of 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 the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, 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

Financial liabilities and equity instruments issued by Easyknit Worldwide 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 Easyknit Worldwide after deducting all of its liabilities. Easyknit Worldwide's financial liabilities are classified as other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including other payables and amount due to ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Easyknit Worldwide 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.

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 of assets other than financial assets

At the end of each reporting period, Easyknit Worldwide reviews the carrying amounts of its assets other than financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of such 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/periods. 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/period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years/periods and it further excludes items that are never taxable or deductible. Easyknit Worldwide's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit 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.

Foreign currencies

In preparing the Financial Information of Easyknit Worldwide, transactions in currencies other than the functional currency of Easyknit Worldwide (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which Easyknit Worldwide operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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.

As lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Retirement benefit scheme

Payments to defined contribution retirement benefit scheme and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

4. CAPITAL RISK MANAGEMENT

Easyknit Worldwide manages its capital to ensure that Easyknit Worldwide 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 capital structure of Easyknit Worldwide consists of debt, which include amount due to ultimate holding company as disclosed in note 15, cash and cash equivalents and equity attributable to owners of Easyknit Worldwide, comprising share capital, special reserve and accumulated losses.

The directors of Easyknit Worldwide review the capital structure on a regular basis. As part of this review, the directors of Easyknit Worldwide consider the cost of capital and the risks associated with the capital. Based on recommendations of the directors of Easyknit Worldwide, Easyknit Worldwide will balance its overall capital structure through new share issues as well as raising of debts.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 March			As at 30 September
	2007	2008	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
Loans and receivables				
Trade and other receivables	—	480	—	—
Amounts due from fellow subsidiaries	—	1,221	728	—
Bank balances and cash	10	145	35	35
	<u>10</u>	<u>1,846</u>	<u>763</u>	<u>35</u>
Financial liabilities				
Amortised costs				
Other payables	—	599	—	—
Amount due to ultimate holding company	34,894	35,310	34,943	34,234
	<u>34,894</u>	<u>35,909</u>	<u>34,943</u>	<u>34,234</u>

Financial risk management objectives and policies

Easyknit Worldwide's major financial instruments include trade and other receivables, amounts due from fellow subsidiaries, bank balances and cash, other payables and amount due to ultimate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Easyknit Worldwide has sales and purchases denominated in currencies other than the functional currency of Easyknit Worldwide, which exposes Easyknit Worldwide to foreign currency risk.

The carrying amounts of Easyknit Worldwide's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	Assets			As at
	As at 31 March			30 September
	2007	2008	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
United States dollars ("USD")	—	80	1	1
Euro	—	13	11	12
	<u>—</u>	<u>13</u>	<u>11</u>	<u>12</u>
	Liabilities			As at
	As at 31 March			30 September
	2007	2008	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
USD	—	565	—	—
	<u>—</u>	<u>565</u>	<u>—</u>	<u>—</u>

Sensitivity analysis

Easyknit Worldwide is mainly exposed to the exchange rate risk on HKD against USD and Euro.

The following table details Easyknit Worldwide's sensitivity to a 5% increase and decrease in HKD against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. As HKD is pegged to USD, the financial impact on exchange difference between HKD and USD is expected to be immaterial and therefore no sensitivity analysis has been prepared.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where HKD weaken 5% against Euro. For a 5% strengthening of HKD against Euro, there would be an equal and opposite impact on the profit for the year/period and the balances below would be negative.

	Year ended 31 March			Six months ended
	30 September			30 September
	2007	2008	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase in profit	—	1	—	—
	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>

Easyknit Worldwide 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

Easyknit Worldwide's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. In order to minimise the credit risk, the directors of Easyknit Worldwide continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover overdue debts. In addition, Easyknit Worldwide reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Easyknit Worldwide consider that Easyknit Worldwide's credit risk is significantly reduced.

Easyknit Worldwide has concentration of credit risk in relation to the receivables from fellow subsidiaries amounting to nil, HK\$1,221,000, HK\$728,000 and nil as at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively. In order to minimise the credit risk, the directors of Easyknit Worldwide have reviewed the recoverable amount of the receivables from fellow subsidiaries at the end of each reporting period to ensure that adequate impairment losses are made for the irrecoverable amount. In this regard, the directors of Easyknit Worldwide consider that Easyknit Worldwide's credit risk is significantly reduced.

The credit risk for bank balances exposed is considered minimal as such amounts are placed with banks with good credit rating.

Liquidity risk

As mentioned in note 1, in the opinion of the directors of Easyknit Worldwide, liquidity risk can be mitigated because Easyknit Worldwide's ultimate holding company has agreed to provide adequate funds to enable Easyknit Worldwide to meet in full its financial obligations as they fall due for the foreseeable future.

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

Liquidity and interest risk tables

	Weighted average interest rate %	On demand HK\$'000	Less than 3 months HK\$'000	Total undiscounted cash flow and carrying amount HK\$'000
At 31 March 2007				
Amount due to ultimate holding company	N/A	<u>34,894</u>	<u>—</u>	<u>34,894</u>
At 31 March 2008				
Other payables	N/A	—	599	599
Amount due to ultimate holding company	N/A	<u>35,310</u>	<u>—</u>	<u>35,310</u>
		<u>35,310</u>	<u>599</u>	<u>35,909</u>
At 31 March 2009				
Amount due to ultimate holding company	N/A	<u>34,943</u>	<u>—</u>	<u>34,943</u>
At 30 September 2009				
Amount due to ultimate holding company	N/A	<u>34,234</u>	<u>—</u>	<u>34,234</u>

Fair value

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

The directors of Easyknit Worldwide consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

6. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amounts received and receivable for goods sold, net of discounts, during the year/period.

Segment information has been identified on the basis of internal management accounts that are regularly reviewed by the chief operating decision maker, the directors, in order to allocate resources to the reportable segments and to assess their performance.

Easyknit Worldwide's operation is located in Hong Kong and regarded as a single segment, being engaged in garment sourcing and exporting.

For the year ended 31 March 2008, revenue from one customer of Easyknit Worldwide amounting to HK\$15,757,000 had individually accounted for over 10% of Easyknit Worldwide's total revenue for the year. No revenue were noted in other reporting periods.

7. OTHER INCOME

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Exchange gain, net	—	279	—	—	1
Interest income	—	3	—	—	—
	—	282	—	—	1

8. (LOSS) PROFIT FOR THE YEAR/PERIOD

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
(Loss) profit for the year/period has been arrived at after charging:					
Directors' remuneration (<i>note 9</i>)	—	148	—	—	—
Other staff costs, including retirement benefits costs	—	582	—	—	—
Total staff costs	—	730	—	—	—
Auditor's remuneration:					
- current year/period	10	12	15	—	10
- underprovision in prior years/periods	1	2	98	98	5
Exchange loss, net	—	—	6	5	—
Minimum lease payments in respect of operating leases	—	134	—	—	—
and after crediting:					
Exchange gain, net	—	279	—	—	1
Interest income	—	3	—	—	—

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Information regarding directors' emoluments

Details of emoluments to the directors of Easyknit Worldwide during the Relevant Periods are as follows:

Year ended 31 March 2007

	Lui Yuk Chu <i>HK\$'000</i>	Tse Wing Chiu, Ricky <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	—	—	—
- retirement benefits schemes contributions	—	—	—
Total directors' emoluments	<u>—</u>	<u>—</u>	<u>—</u>

Year ended 31 March 2008

	Lui Yuk Chu <i>HK\$'000</i>	Tse Wing Chiu, Ricky <i>HK\$'000</i> <i>(Note a)</i>	Kwong Jimmy Cheung Tim <i>HK\$'000</i> <i>(Note b)</i>	Total <i>HK\$'000</i>
Fees	—	—	—	—
Other emoluments				
- salaries and other benefits	88	30	27	145
- retirement benefits schemes contributions	2	1	—	3
Total directors' emoluments	<u>90</u>	<u>31</u>	<u>27</u>	<u>148</u>

Notes:

(a) Mr. Tse Wing Chiu, Ricky resigned as a director on 18 December 2007.

(b) Mr. Kwong Jimmy Cheung Tim was appointed as a director on 18 December 2007.

Year ended 31 March 2009

	Lui Yuk Chu <i>HK\$'000</i>	Kwong Jimmy Cheung Tim <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	—	—	—
- retirement benefits schemes contributions	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total directors' emoluments	<u>—</u>	<u>—</u>	<u>—</u>

Six months ended 30 September 2008 (unaudited)

	Lui Yuk Chu <i>HK\$'000</i>	Kwong Jimmy Cheung Tim <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	—	—	—
- retirement benefits schemes contributions	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total directors' emoluments	<u>—</u>	<u>—</u>	<u>—</u>

Six months ended 30 September 2009

	Lui Yuk Chu <i>HK\$'000</i>	Kwong Jimmy Cheung Tim <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	—	—	—
- retirement benefits schemes contributions	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total directors' emoluments	<u>—</u>	<u>—</u>	<u>—</u>

Information regarding employees' emoluments

The five highest paid individuals of Easyknit Worldwide included nil, three, nil, nil and nil directors for the years ended 31 March 2007, 2008 and 2009 and the six months ended 30 September 2008 and 2009, respectively. The emoluments of the remaining highest paid individuals, not being directors, were as follows:

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Salaries and other benefits	—	76	—	—	—
Retirement benefits schemes contributions	—	1	—	—	—
	<u>—</u>	<u>77</u>	<u>—</u>	<u>—</u>	<u>—</u>

Their emoluments were within the following bands:

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
				<i>(unaudited)</i>	
Nil to HK\$1,000,000	<u>N/A</u>	<u>2</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

During the Relevant Periods, no emoluments was paid by Easyknit Worldwide to the five highest paid individuals, including directors, as an inducement to join or upon joining Easyknit Worldwide or as compensation for loss of office. In addition, during the Relevant Periods, no director waived any emoluments.

10. TAXATION

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate tax rate by 1% to 16.5% effective from the year of assessment 2008/2009. The effect of such decrease has been reflected in measuring the current tax for the year ended 31 March 2009 and the deferred tax balances have also been adjusted to reflect the change in tax rate.

No provision for Hong Kong Profits Tax has been made in the Financial Information during the Relevant Periods as Easyknit Worldwide incurred a tax loss for the years ended 31 March 2007 and 2009 and the six months ended 30 September 2008 and 2009 and the estimated assessable profits for the year ended 31 March 2008 was wholly absorbed by tax losses brought forward.

Taxation for the year/period can be reconciled to the results per the statement of comprehensive income as follows:

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
(Loss) profit for the year/period	<u>(14)</u>	<u>820</u>	<u>(120)</u>	<u>(104)</u>	<u>(14)</u>
Hong Kong Profits Tax rate	17.5%	17.5%	16.5%	16.5%	16.5%
Tax (credit) charge at applicable tax rate	(2)	144	(20)	(17)	(2)
Tax effect of income not taxable for tax purposes	—	(1)	—	—	—
Tax effect of tax losses not recognised	2	—	20	17	2
Tax effect of utilisation of tax losses previously not recognised	<u>—</u>	<u>(143)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Easyknit Worldwide has unused tax losses of approximately HK\$6,895,000, HK\$6,078,000, HK\$6,198,000 and HK\$6,210,000 as at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively, available for offset against future profits. No deferred tax assets had been recognised in respect of these tax losses due to the unpredictability of future profit streams.

11. TRADE AND OTHER RECEIVABLES

	As at 31 March			As at
	2007	2008	2009	30 September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Trade receivables	—	46	—	—
Other receivables	<u>—</u>	<u>434</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>480</u>	<u>—</u>	<u>—</u>

Easyknit Worldwide allows credit period of up to 90 days to its customers. The aged analysis of trade receivables at the end of each reporting period is as follows:

	As at 31 March			As at
	2007	2008	2009	30 September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
0 to 60 days	<u>—</u>	<u>46</u>	<u>—</u>	<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 Easyknit Worldwide's trade receivables balances were debtors with aggregate carrying amount of nil, HK\$46,000, nil and nil as at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively, which were past due at the end of each reporting period for which Easyknit Worldwide had not provided for allowance. Easyknit Worldwide did not hold any collateral over these balances.

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

	As at 31 March			As at 30 September
	2007	2008	2009	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Overdue by 1 to 60 days	—	46	—	—

No allowance was made for trade receivables that were past due but not impaired at the end of each reporting period as the amounts were expected to be subsequently recovered after the end of each reporting period.

Easyknit Worldwide's trade and other receivables that are denominated in a currency other than the functional currency of Easyknit Worldwide are set out below:

	As at 31 March			As at 30 September
	2007	2008	2009	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
USD	—	1	—	—

12. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

13. BANK BALANCES AND CASH

	As at 31 March			As at 30 September
	2007	2008	2009	2009
	%	%	%	%
Interest rates of the bank deposits per annum	N/A	0.01-1.85	0.01-0.50	N/A

Easyknit Worldwide's bank balances and cash that are denominated in currencies other than the functional currency of Easyknit Worldwide are set out below:

	As at 31 March			As at
	2007	2008	2009	30 September
	HK\$'000	HK\$'000	HK\$'000	2009
USD	—	79	1	1
Euro	—	13	11	12

14. OTHER PAYABLES AND ACCRUED CHARGES

Easyknit Worldwide's other payables that are denominated in a currency other than the functional currency of Easyknit Worldwide are set out below:

	As at 31 March			As at
	2007	2008	2009	30 September
	HK\$'000	HK\$'000	HK\$'000	2009
USD	—	565	—	—

15. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, interest-free and repayable on demand.

Subsequent to 30 September 2009, the Board of Directors of Easyknit International passed a board resolution approving the waiver of the sum owed by Easyknit Worldwide to Easyknit International as at 30 September 2009, amounting to HK\$34,234,000.

16. SHARE CAPITAL

	As at 1 April 2006, 31 March 2007, 2008 and 2009 and 30 September 2009 HK\$'000
Authorised:	
10,000 ordinary shares of HK\$1 each	10
Issued and fully paid:	
2 ordinary shares of HK\$1 each	—

17. RETIREMENT BENEFITS SCHEMES

Easyknit Worldwide had defined contribution retirement scheme (the "Retirement Scheme") for its employees and the assets of the Retirement Scheme are held under provident funds managed by independent trustees. With effect from 1 December 2000, the Retirement Scheme has become a "Top Up" scheme to supplement the minimum benefit under the mandatory provident fund scheme (the "MPF Scheme") for all the eligible employees of Easyknit Worldwide in Hong Kong.

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.

The aggregate employers' contributions which have been dealt with in the statement of comprehensive income amounted to nil, HK\$25,000, nil, nil and nil for the years ended 31 March 2007, 2008 and 2009 and the six months ended 30 September 2008 and 2009 respectively.

At the end of each reporting period, the total amount of forfeited contributions available to reduce the contributions payable in the future years was insignificant.

18. RELATED PARTY TRANSACTIONS

- (a) Apart from details of the balances with related parties disclosed in the Financial Information during the Relevant Periods, Easyknit Worldwide entered into following transactions with related parties:

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental expense paid to a fellow subsidiary	—	93	—	—	—
Expenses on share of use of facilities paid to a fellow subsidiary	—	15	—	—	—
	<u>—</u>	<u>15</u>	<u>—</u>	<u>—</u>	<u>—</u>

(unaudited)

- (b) The emolument paid/payable to key management personnel of Easyknit Worldwide is disclosed in note 9.

19. SUBSEQUENT EVENTS

There were no significant subsequent events after 30 September 2009.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Easyknit Worldwide subsequent to 30 September 2009.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

3. ACCOUNTANTS' REPORT OF GRAND PROFIT DEVELOPMENT LIMITED

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

29 January 2010

The Directors
Easyknit Enterprises Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Grand Profit Development Limited (“Grand Profit”) for each of the three years ended 31 March 2009 and the six months ended 30 September 2009 (the “Relevant Periods”) for inclusion in the circular (the “Circular”) dated 29 January 2010 issued by Easyknit Enterprises Holdings Limited (the “Company”) in connection with, among others, the proposed acquisition of the entire issued share capital of Grand Profit (the “Grand Profit Acquisition”).

Grand Profit is a limited liability company incorporated in Hong Kong. The address of the registered office and the principal place of business of Grand Profit is Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong. The principal activity of Grand Profit is garment sourcing and exporting.

We have acted as auditor of Grand Profit for the three years ended 31 March 2009. Audited financial statements of Grand Profit have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

For the purpose of this report, the directors of Grand Profit have prepared the management accounts of Grand Profit for the six months ended 30 September 2009 in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA (the “30 September 2009 Accounts”). We have performed an independent audit on the 30 September 2009 Accounts in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the financial statements of Grand Profit for the three years ended 31 March 2009 and the 30 September 2009 Accounts (collectively the “Underlying Financial Statements”) in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of Grand Profit for the Relevant Periods set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards based on the Underlying Financial Statements. No adjustments to the Underlying Financial Statements have been made in preparing our report for inclusion in the Circular.

The directors of Grand Profit are responsible for the Underlying Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Grand Profit as at 31 March 2007, 2008 and 2009 and 30 September 2009 and of the results and cash flows of Grand Profit for the Relevant Periods.

The comparative statement of comprehensive income, statement of changes in equity and statement of cash flows of Grand Profit for the six months ended 30 September 2008 together with the notes thereon have been extracted from Grand Profit's management accounts for the same period (the "30 September 2008 Accounts") which were prepared by the directors of Grand Profit solely for the purpose of this report. We have reviewed the 30 September 2008 Accounts in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review consists principally of making enquiries of the Grand Profit management and applying analytical procedures to the 30 September 2008 Accounts and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review exclude audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 September 2008 Accounts. On the basis of our review which does not constitute an audit, we are not aware of any material modification that should be made to the 30 September 2008 Accounts.

A. FINANCIAL INFORMATION

Statement of comprehensive income

	NOTES	Year ended 31 March			Six months ended 30 September	
		2007	2008	2009	2008	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	6	50,470	44,511	43,045	18,414	11,249
Cost of sales		<u>(45,743)</u>	<u>(40,021)</u>	<u>(39,491)</u>	<u>(17,097)</u>	<u>(10,430)</u>
Gross profit		4,727	4,490	3,554	1,317	819
Other income	7	55	520	898	253	162
Distribution and selling expenses		(585)	(282)	(231)	(132)	(63)
Administrative expenses		<u>(2,972)</u>	<u>(2,879)</u>	<u>(3,127)</u>	<u>(1,409)</u>	<u>(766)</u>
Profit and total comprehensive income for the year/period attributable to owners of Grand Profit	8	<u>1,225</u>	<u>1,849</u>	<u>1,094</u>	<u>29</u>	<u>152</u>

Statement of financial position

	NOTES	As at 31 March			As at
		2007	2008	2009	30 September
		HK\$'000	HK\$'000	HK\$'000	2009
					HK\$'000
Non-current assets					
Property, plant and equipment	11	—	—	—	—
Current assets					
Trade and other receivables	12	3,100	2,436	2,666	110
Amounts due from fellow subsidiaries	13	5,856	2,419	2,436	5,293
Bank balances and cash	14	59	95	111	38
		<u>9,015</u>	<u>4,950</u>	<u>5,213</u>	<u>5,441</u>
Current liabilities					
Trade and other payables	15	3,012	1,483	409	1,090
Bills payable	16	—	1,444	—	—
Amount due to ultimate holding company	17	73,420	70,287	70,170	70,624
Amounts due to fellow subsidiaries	17	<u>2,887</u>	<u>191</u>	<u>1,995</u>	<u>936</u>
		<u>79,319</u>	<u>73,405</u>	<u>72,574</u>	<u>72,650</u>
Net current liabilities		<u>(70,304)</u>	<u>(68,455)</u>	<u>(67,361)</u>	<u>(67,209)</u>
Net liabilities		<u>(70,304)</u>	<u>(68,455)</u>	<u>(67,361)</u>	<u>(67,209)</u>
Capital and reserves					
Share capital	18	—	—	—	—
Accumulated losses		<u>(70,304)</u>	<u>(68,455)</u>	<u>(67,361)</u>	<u>(67,209)</u>
		<u>(70,304)</u>	<u>(68,455)</u>	<u>(67,361)</u>	<u>(67,209)</u>

Statement of changes in equity

	Attributable to equity holders of Grand Profit		Total HK\$'000
	Share capital HK\$'000	Accumulated losses HK\$'000	
At 1 April 2006	—	(71,529)	(71,529)
Profit and total comprehensive income for the year	<u>—</u>	<u>1,225</u>	<u>1,225</u>
At 31 March 2007	—	(70,304)	(70,304)
Profit and total comprehensive income for the year	<u>—</u>	<u>1,849</u>	<u>1,849</u>
At 31 March 2008	—	(68,455)	(68,455)
Profit and total comprehensive income for the year	<u>—</u>	<u>1,094</u>	<u>1,094</u>
At 31 March 2009	—	(67,361)	(67,361)
Profit and total comprehensive income for the period	<u>—</u>	<u>152</u>	<u>152</u>
At 30 September 2009	<u>—</u>	<u>(67,209)</u>	<u>(67,209)</u>
Unaudited			
At 1 April 2008	—	(68,455)	(68,455)
Profit and total comprehensive income for the period	<u>—</u>	<u>29</u>	<u>29</u>
At 30 September 2008	<u>—</u>	<u>(68,426)</u>	<u>(68,426)</u>

Statement of cash flows

	Year ended 31 March			Six months ended 30 September	
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000
				<i>(unaudited)</i>	
Cash flows from operating activities					
Profit for the year/period	1,225	1,849	1,094	29	152
Adjustment for interest income	(16)	(11)	—	—	—
Operating cash flows before movements in working capital	1,209	1,838	1,094	29	152
Decrease in inventories	1,119	—	—	—	—
Decrease (increase) in trade and other receivables	4,305	664	(230)	(36)	2,556
Decrease (increase) in amounts due from fellow subsidiaries	1,163	3,437	(17)	(1,160)	(2,857)
(Decrease) increase in trade and other payables	(1,868)	(1,529)	(1,074)	(1,001)	681
Increase (decrease) in bills payable	—	1,444	(1,444)	(1,444)	—
Increase (decrease) in amounts due to fellow subsidiaries	266	(2,696)	1,804	1,202	(1,059)
Net cash from (used in) operating activities	6,194	3,158	133	(2,410)	(527)
Net cash from investing activities					
Interest received	16	11	—	—	—
Net cash (used in) from financing activities					
(Repayment to) advances from ultimate holding company	(6,235)	(3,133)	(117)	2,388	454
Net (decrease) increase in cash and cash equivalents	(25)	36	16	(22)	(73)
Cash and cash equivalents at beginning of the year/period	84	59	95	95	111
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	59	95	111	73	38

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Grand Profit was incorporated in Hong Kong as a limited liability company and the principal activity is garment sourcing and exporting. Its immediate holding company is Easyknit Properties Holdings Limited, a company incorporated in the British Virgin Islands. Its ultimate holding company is Easyknit International Holdings Limited ("Easyknit International"), a company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of Grand Profit is Unit A, 7th Floor, Hong Kong Spinners Buildings, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong.

The Financial Information is presented in Hong Kong dollars ("HK\$" or "HKD"), which is the functional currency of Grand Profit and is consistent with the presentation currency of the financial information of the Company and its subsidiaries incorporated in the Circular in connection with the Grand Profit Acquisition.

In preparing the Financial Information, the directors of Grand Profit have given careful consideration to the future liquidity of Grand Profit in light of the net liabilities amounting to HK\$67,209,000 as at 30 September 2009. As explained in note 17, subsequent to 30 September 2009, the Board of Directors of Easyknit International passed a board resolution approving the waiver of the sum owed by Grand Profit to Easyknit International as at 30 September 2009 amounting to HK\$70,624,000, which is included in the statement of financial position as amount due to ultimate holding company. The directors of Grand Profit are satisfied that, after taking into consideration the effect of this waiver of intercompany debt, Grand Profit will be able to meet in full its financial obligations as they fall due for the foreseeable future.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT"s) (hereinafter collectively referred to as "new and revised HKFRSs") which are effective for Grand Profit's reporting period beginning on 1 April 2009. For the purposes of preparing and presenting the Financial Information for the Relevant Periods, Grand Profit has adopted all these new and revised HKFRSs consistently throughout the Relevant Periods.

Grand Profit has not early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 24 (Revised)	Related party disclosures ³
HKAS 27 (Revised)	Consolidated and separate financial statements ¹
HKAS 32 (Amendment)	Classification of rights issues ⁴
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters ⁵
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions ⁵
HKFRS 3 (Revised)	Business combinations ¹
HKFRS 9	Financial instruments ⁶
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement ³
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners ¹
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments ⁷

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

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2011.

- ⁴ Effective for annual periods beginning on or after 1 February 2010.
- ⁵ Effective for annual periods beginning on or after 1 January 2010.
- ⁶ Effective for annual periods beginning on or after 1 January 2013.
- ⁷ Effective for annual periods beginning on or after 1 July 2010.

The directors of Grand Profit anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and financial position of Grand Profit.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Revenue recognition

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

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

Service income is recognised when services are rendered.

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

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 statement of comprehensive income in the year/period in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when Grand Profit 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 at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Grand Profit's financial assets are classified into loans and receivables.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from fellow subsidiaries 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 of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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.

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, the amount of 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 the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, 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

Financial liabilities and equity instruments issued by Grand Profit 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 Grand Profit after deducting all of its liabilities. Grand Profit's financial liabilities are classified as other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, bills payable, amount due to ultimate holding company and amounts due to fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Grand Profit 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.

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 of assets other than financial assets

At the end of each reporting period, Grand Profit reviews the carrying amounts of its assets other than financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of such 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/periods. 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/period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years/periods and it further excludes items that are never taxable or deductible. Grand Profit's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit 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.

Foreign currencies

In preparing the Financial Information of Grand Profit, transactions in currencies other than the functional currency of Grand Profit (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which Grand Profit operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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.

As lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Retirement benefit scheme

Payments to defined contribution retirement benefit scheme and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

4. CAPITAL RISK MANAGEMENT

Grand Profit manages its capital to ensure that Grand Profit 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 capital structure of Grand Profit consists of debt, which include amounts due to group companies as disclosed in note 17, cash and cash equivalents and equity attributable to owners of Grand Profit, comprising share capital and accumulated losses.

The directors of Grand Profit review the capital structure on a regular basis. As part of this review, the directors of Grand Profit consider the cost of capital and the risks associated with the capital. Based on recommendations of the directors of Grand Profit, Grand Profit will balance its overall capital structure through new share issues as well as raising of debts.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 March			As at 30 September
	2007	2008	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
Loans and receivables				
Trade and other receivables	3,100	2,436	1,495	110
Amounts due from fellow subsidiaries	5,856	2,419	2,436	5,293
Bank balances and cash	59	95	111	38
	<u>9,015</u>	<u>4,950</u>	<u>4,042</u>	<u>5,441</u>
Financial liabilities				
Amortised costs				
Trade and other payables	2,950	1,416	330	1,046
Bills payable	—	1,444	—	—
Amount due to ultimate holding company	73,420	70,287	70,170	70,624
Amounts due to fellow subsidiaries	2,887	191	1,995	936
	<u>79,257</u>	<u>73,338</u>	<u>72,495</u>	<u>72,606</u>

Financial risk management objectives and policies

Grand Profit's major financial instruments include trade and other receivables, amounts due from fellow subsidiaries, bank balances and cash, trade and other payables, bills payable, amount due to ultimate holding company and amounts due to fellow subsidiaries. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk**Currency risk*

Grand Profit has sales and purchases denominated in currencies other than the functional currency of Grand Profit, which exposes Grand Profit to foreign currency risk.

The carrying amounts of Grand Profit's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	Assets			As at
	As at 31 March			30 September
	2007	2008	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
United States dollars ("USD")	<u>8,518</u>	<u>3,108</u>	<u>3,990</u>	<u>5,375</u>
	Liabilities			As at
	As at 31 March			30 September
	2007	2008	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
USD	<u>38</u>	<u>1,578</u>	<u>—</u>	<u>75</u>

Sensitivity analysis

Grand Profit is mainly exposed to the exchange rate risk on HKD against USD.

As HKD is pegged to USD, the financial impact on exchange difference between HKD and USD is expected to be immaterial and therefore no sensitivity analysis has been prepared.

Grand Profit 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

Grand Profit's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. In order to minimise the credit risk, the directors of Grand Profit continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover overdue debts. In addition, Grand Profit reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Grand Profit consider that Grand Profit's credit risk is significantly reduced.

Grand Profit has concentration of credit risk in relation to the receivables from fellow subsidiaries amounting to HK\$5,856,000, HK\$2,419,000, HK\$2,436,000 and HK\$5,293,000 as at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively. In order to minimise the credit risk, the directors of Grand Profit have reviewed the recoverable amount of the receivables from fellow subsidiaries at the end of each reporting period to ensure that adequate impairment losses are made for the irrecoverable amount. In this regard, the directors of Grand Profit consider that Grand Profit's credit risk is significantly reduced.

The credit risk for bank balances exposed is considered minimal as such amounts are placed with banks with good credit rating.

Liquidity risk

As mentioned in note 1, in the opinion of the directors of Grand Profit, liquidity risk can be mitigated because Grand Profit's ultimate holding company has agreed to provide adequate funds to enable Grand Profit to meet in full its financial obligations as they fall due for the foreseeable future.

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

Liquidity and interest risk tables

	Weighted average interest rate %	On demand HK\$'000	Less than 3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flow and carrying amount HK\$'000
At 31 March 2007					
Trade and other payables	N/A	—	2,878	72	2,950
Amount due to ultimate holding company	N/A	73,420	—	—	73,420
Amounts due to fellow subsidiaries	N/A	2,887	—	—	2,887
		<u>76,307</u>	<u>2,878</u>	<u>72</u>	<u>79,257</u>
At 31 March 2008					
Trade and other payables	N/A	—	1,416	—	1,416
Bills payable	N/A	—	1,444	—	1,444
Amount due to ultimate holding company	N/A	70,287	—	—	70,287
Amounts due to fellow subsidiaries	N/A	191	—	—	191
		<u>70,478</u>	<u>2,860</u>	<u>—</u>	<u>73,338</u>

	Weighted average interest rate %	On demand HK\$'000	Less than 3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flow and carrying amount HK\$'000
At 31 March 2009					
Trade and other payables	N/A	—	330	—	330
Amount due to ultimate holding company	N/A	70,170	—	—	70,170
Amounts due to fellow subsidiaries	N/A	1,995	—	—	1,995
		<u>72,165</u>	<u>330</u>	<u>—</u>	<u>72,495</u>
At 30 September 2009					
Trade and other payables	N/A	—	1,046	—	1,046
Amount due to ultimate holding company	N/A	70,624	—	—	70,624
Amounts due to fellow subsidiaries	N/A	936	—	—	936
		<u>71,560</u>	<u>1,046</u>	<u>—</u>	<u>72,606</u>

Fair value

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

The directors of Grand Profit consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

6. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amounts received and receivable for goods sold, net of discounts, during the year/period.

Segment information has been identified on the basis of internal management accounts that are regularly reviewed by the chief operating decision maker, the directors, in order to allocate resources to the reportable segments and to assess their performance.

Grand Profit's operation is located in Hong Kong and regarded as a single segment, being engaged in garment sourcing and exporting.

For the year ended 31 March 2007, revenue from two customers of Grand Profit amounting to HK\$31,736,000 and HK\$17,513,000 had individually accounted for over 10% of Grand Profit's total revenue for the year. For the year ended 31 March 2008, revenue from two customers of Grand Profit amounting to HK\$31,673,000 and HK\$11,930,000 had individually accounted for over 10% of Grand Profit's total revenue for the year. For the year ended 31 March 2009, revenue from two customers of Grand Profit amounting to HK\$28,463,000 and HK\$13,073,000 had individually accounted for over 10% of Grand Profit's total revenue for the year. For the six months ended 30 September 2008, revenue from two customers of Grand Profit amounting to HK\$10,201,000 and HK\$8,213,000 had individually accounted for over 10% of Grand Profit's total revenue for

the period. For the six months ended 30 September 2009, revenue from two customers of Grand Profit amounting to HK\$6,945,000 and HK\$4,304,000 had individually accounted for over 10% of Grand Profit's total revenue for the period. Save as disclosed above, none of the customers of Grand Profit contributed more than 10% of the total revenue for the years ended 31 March 2007, 2008 and 2009 and the six months ended 30 September 2008 and 2009.

7. OTHER INCOME

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Commission income	—	436	898	253	162
Exchange gain, net	3	—	—	—	—
Interest income	16	11	—	—	—
Others	36	73	—	—	—
	<u>55</u>	<u>520</u>	<u>898</u>	<u>253</u>	<u>162</u>

8. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Profit for the year/period has been arrived at after charging:					
Directors' remuneration (<i>note 9</i>)	367	403	391	180	96
Other staff costs, including retirement benefits costs	<u>1,669</u>	<u>1,582</u>	<u>1,724</u>	<u>786</u>	<u>403</u>
Total staff costs	<u>2,036</u>	<u>1,985</u>	<u>2,115</u>	<u>966</u>	<u>499</u>
Auditor's remuneration:					
- current year/period	60	65	78	—	44
- underprovision in prior years/periods	6	5	13	13	9
Exchange loss, net	—	4	28	—	—
Minimum lease payments in respect of operating leases	410	366	458	211	113
and after crediting:					
Exchange gain, net	3	—	—	—	—
Interest income	<u>16</u>	<u>11</u>	<u>—</u>	<u>—</u>	<u>—</u>

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Information regarding directors' emoluments

Details of emoluments to the directors of Grand Profit during the Relevant Periods are as follows:

Year ended 31 March 2007

	Lui Yuk Chu <i>HK\$'000</i>	Tse Wing Chiu, Ricky <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	241	119	360
- retirement benefits schemes contributions	<u>6</u>	<u>1</u>	<u>7</u>
Total directors' emoluments	<u>247</u>	<u>120</u>	<u>367</u>

Year ended 31 March 2008

	Lui Yuk Chu <i>HK\$'000</i>	Tse Wing Chiu, Ricky <i>HK\$'000</i> <i>(Note a)</i>	Kwong Jimmy Cheung Tim <i>HK\$'000</i> <i>(Note b)</i>	Total <i>HK\$'000</i>
Fees	—	—	—	—
Other emoluments				
- salaries and other benefits	240	82	74	396
- retirement benefits schemes contributions	<u>5</u>	<u>1</u>	<u>1</u>	<u>7</u>
Total directors' emoluments	<u>245</u>	<u>83</u>	<u>75</u>	<u>403</u>

Notes:

(a) Mr. Tse Wing Chiu, Ricky resigned as a director on 18 December 2007.

(b) Mr. Kwong Jimmy Cheung Tim was appointed as a director on 18 December 2007.

Year ended 31 March 2009

	Lui Yuk Chu <i>HK\$'000</i>	Kwong Jimmy Cheung Tim <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	284	100	384
- retirement benefits schemes contributions	<u>6</u>	<u>1</u>	<u>7</u>
Total directors' emoluments	<u><u>290</u></u>	<u><u>101</u></u>	<u><u>391</u></u>

Six months ended 30 September 2008 (unaudited)

	Lui Yuk Chu <i>HK\$'000</i>	Kwong Jimmy Cheung Tim <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	131	46	177
- retirement benefits schemes contributions	<u>2</u>	<u>1</u>	<u>3</u>
Total directors' emoluments	<u><u>133</u></u>	<u><u>47</u></u>	<u><u>180</u></u>

Six months ended 30 September 2009

	Lui Yuk Chu <i>HK\$'000</i>	Kwong Jimmy Cheung Tim <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	—	—	—
Other emoluments			
- salaries and other benefits	69	25	94
- retirement benefits schemes contributions	<u>2</u>	<u>—</u>	<u>2</u>
Total directors' emoluments	<u><u>71</u></u>	<u><u>25</u></u>	<u><u>96</u></u>

Information regarding employees' emoluments

The five highest paid individuals of Grand Profit included two, three, two, two and two directors for the years ended 31 March 2007, 2008 and 2009 and the six months ended 30 September 2008 and 2009, respectively. The emoluments of the remaining highest paid individuals, not being directors, were as follows:

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Salaries and other benefits	293	208	319	116	61
Retirement benefits schemes contributions	<u>7</u>	<u>2</u>	<u>11</u>	<u>3</u>	<u>1</u>
	<u>300</u>	<u>210</u>	<u>330</u>	<u>119</u>	<u>62</u>

Their emoluments were within the following bands:

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	<i>(unaudited)</i>				
Nil to HK\$1,000,000	<u>3</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Relevant Periods, no emoluments was paid by Grand Profit to the five highest paid individuals, including directors, as an inducement to join or upon joining Grand Profit or as compensation for loss of office. In addition, during the Relevant Periods, no director waived any emoluments.

10. TAXATION

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate tax rate by 1% to 16.5% effective from the year of assessment 2008/2009. The effect of such decrease has been reflected in measuring the current tax for the year ended 31 March 2009 and the deferred tax balances have also been adjusted to reflect the change in tax rate.

No provision for Hong Kong Profits Tax has been made in the Financial Information during the Relevant Periods as the estimated assessable profits for the years ended 31 March 2007, 2008 and 2009 and the six months ended 30 September 2008 and 2009 were wholly absorbed by tax losses brought forward.

Taxation for the year/period can be reconciled to the results per the statement of comprehensive income as follows:

	Year ended 31 March			Six months ended 30 September	
	2007 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> <i>(unaudited)</i>	2009 <i>HK\$'000</i>
Profit for the year/period	<u>1,225</u>	<u>1,849</u>	<u>1,094</u>	<u>29</u>	<u>152</u>
Hong Kong Profits Tax rate	17.5%	17.5%	16.5%	16.5%	16.5%
Tax charge at applicable tax rate	214	323	180	5	25
Tax effect of income not taxable for tax purposes	(3)	(2)	—	—	—
Tax effect of utilisation of tax losses previously not recognised	<u>(211)</u>	<u>(321)</u>	<u>(180)</u>	<u>(5)</u>	<u>(25)</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Grand Profit has unused tax losses of approximately HK\$5,778,000, HK\$3,939,000, HK\$2,845,000 and HK\$2,693,000 as at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively, available for offset against future profits. No deferred tax assets had been recognised in respect of these tax losses due to the unpredictability of future profit streams.

11. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>HK\$'000</i>
COST	
At 1 April 2006, 31 March 2007, 2008 and 2009 and 30 September 2009	<u>19</u>
ACCUMULATED DEPRECIATION	
At 1 April 2006, 31 March 2007, 2008 and 2009 and 30 September 2009	<u>19</u>
CARRYING VALUES	
At 31 March 2007, 2008 and 2009 and 30 September 2009	<u>—</u>

The above furniture, fixtures and equipment are depreciated on a straight-line basis at the rate of 20% per annum.

12. TRADE AND OTHER RECEIVABLES

	As at 31 March			As at
	2007	2008	2009	30 September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Trade receivables	5,171	2,416	1,475	78
Less: Allowance for doubtful debts	(2,091)	—	—	—
	3,080	2,416	1,475	78
Other receivables	20	20	1,191	32
	3,100	2,436	2,666	110

Grand Profit allows credit period of up to 90 days to its customers. The aged analysis of trade receivables at the end of each reporting period is as follows:

	As at 31 March			As at
	2007	2008	2009	30 September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
0 to 60 days	2,611	2,416	1,475	3
61 to 90 days	—	—	—	—
Over 90 days	469	—	—	75
	3,080	2,416	1,475	78

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 Grand Profit's trade receivables balances were debtors with aggregate carrying amount of HK\$355,000, HK\$1,547,000, nil and HK\$78,000 as at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively, which were past due at the end of each reporting period for which Grand Profit had not provided for allowance. Grand Profit did not hold any collateral over these balances.

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

	As at 31 March			As at
	2007	2008	2009	30 September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Overdue by 1 to 60 days	—	1,547	—	78
Overdue by 61 to 90 days	—	—	—	—
Overdue by over 90 days	355	—	—	—
	<u>355</u>	<u>1,547</u>	<u>—</u>	<u>78</u>

Movement in the allowance for doubtful debts:

	As at 31 March			As at
	2007	2008	2009	30 September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Balance at beginning of the year/period	2,091	2,091	—	—
Amounts written off as uncollectible	<u>—</u>	<u>(2,091)</u>	<u>—</u>	<u>—</u>
Balance at end of the year/period	<u>2,091</u>	<u>—</u>	<u>—</u>	<u>—</u>

Included in the allowance for doubtful debts at 31 March 2007, 2008 and 2009 and 30 September 2009 were individually impaired trade receivables with aggregate balance of HK\$2,091,000, nil, nil and nil, respectively, which had either been placed under liquidation or in financial difficulties. Grand Profit did not hold any collateral over these balances.

No allowance was made for trade receivables that were past due but not impaired at the end of each reporting period as the amounts were expected to be subsequently recovered after the end of each reporting period.

Grand Profit's trade and other receivables that are denominated in a currency other than the functional currency of Grand Profit are set out below:

	As at 31 March			As at
	2007	2008	2009	30 September
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
USD	<u>2,650</u>	<u>965</u>	<u>1,475</u>	<u>75</u>

13. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

Grand Profit's amounts due from fellow subsidiaries that are denominated in a currency other than the functional currency of Grand Profit are set out below:

	2007 <i>HK\$'000</i>	As at 31 March		As at
		2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	30 September 2009 <i>HK\$'000</i>
USD	<u>5,838</u>	<u>2,080</u>	<u>2,436</u>	<u>5,293</u>

14. BANK BALANCES AND CASH

	2007 %	As at 31 March		As at
		2008 %	2009 %	30 September 2009 %
Interest rates of the bank deposits per annum	<u>1.75-1.85</u>	<u>0.01-1.85</u>	<u>0.01</u>	<u>0.001-0.01</u>

Grand Profit's bank balances and cash that are denominated in a currency other than the functional currency of Grand Profit are set out below:

	2007 <i>HK\$'000</i>	As at 31 March		As at
		2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	30 September 2009 <i>HK\$'000</i>
USD	<u>30</u>	<u>63</u>	<u>79</u>	<u>7</u>

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$2,950,000, HK\$1,416,000, HK\$330,000 and HK\$1,046,000 as at 31 March 2007, 2008 and 2009 and 30 September 2009, respectively. The aged analysis of trade payables at the end of each reporting period is as follows:

	2007	As at 31 March 2008	2009	As at 30 September 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	2,838	1,404	330	970
61 - 90 days	—	7	—	—
Over 90 days	112	5	—	76
	<u>2,950</u>	<u>1,416</u>	<u>330</u>	<u>1,046</u>

Grand Profit's trade and other payables that are denominated in a currency other than the functional currency of Grand Profit are set out below:

	2007	As at 31 March 2008	2009	As at 30 September 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
USD	<u>38</u>	<u>134</u>	<u>—</u>	<u>75</u>

16. BILLS PAYABLE

At the end of each reporting period, the bills payable are aged within 30 days.

Grand Profit's bills payable that are denominated in a currency other than the functional currency of Grand Profit are set out below:

	2007	As at 31 March 2008	2009	As at 30 September 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
USD	<u>—</u>	<u>1,444</u>	<u>—</u>	<u>—</u>

17. AMOUNTS DUE TO GROUP COMPANIES

The amounts are unsecured, interest-free and repayable on demand.

Subsequent to 30 September 2009, the Board of Directors of Easyknit International passed a board resolution approving the waiver of the sum owed by Grand Profit to Easyknit International as at 30 September 2009 amounting to HK\$70,624,000.

18. SHARE CAPITAL

**As at 1 April 2006,
31 March 2007,
2008 and 2009 and
30 September 2009**
HK\$'000

Authorised:

10,000 ordinary shares of HK\$1 each	10
--------------------------------------	----

Issued and fully paid:

2 ordinary shares of HK\$1 each	—
---------------------------------	---

19. RETIREMENT BENEFITS SCHEMES

Grand Profit had defined contribution retirement scheme (the "Retirement Scheme") for its employees and the assets of the Retirement Scheme are held under provident funds managed by independent trustees. With effect from 1 December 2000, the Retirement Scheme has become a "Top Up" scheme to supplement the minimum benefit under the mandatory provident fund scheme (the "MPF Scheme") for all the eligible employees of Grand Profit in Hong Kong.

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.

The aggregate employers' contributions which have been dealt with in the statement of comprehensive income amounted to HK\$71,000, HK\$69,000, HK\$76,000, HK\$33,000 and HK\$16,000 for the years ended 31 March 2007, 2008 and 2009 and the six months ended 30 September 2008 and 2009, respectively.

At the end of each reporting period, the total amount of forfeited contributions available to reduce the contributions payable in the future years was insignificant.

20. CONTINGENT LIABILITIES

At 31 March 2007, 2008 and 2009, Grand Profit had given unlimited cross guarantees to a bank to secure general credit facilities amounting to HK\$70,000,000, HK\$70,000,000 and HK\$20,000,000, respectively, granted to Grand Profit and its fellow subsidiaries. The outstanding amount of facilities utilised by Grand Profit amounted to nil, HK\$1,444,000 and nil, respectively, as at 31 March 2007, 2008 and 2009. The outstanding amount of facilities utilised by the fellow subsidiaries amounted to nil, nil and HK\$1,979,000, respectively, as at 31 March 2007, 2008 and 2009.

The above credit facilities were also guaranteed by Easyknit International and secured by an investment property owned by a fellow subsidiary. The credit facilities were released during the six months ended 30 September 2009.

At 31 March 2007, 2008 and 2009, the fair value of the financial guarantee given to a bank in respect of credit facilities granted to Grand Profit's fellow subsidiaries by such bank at the date of inception is immaterial.

21. RELATED PARTY TRANSACTIONS

- (a) Apart from details of the balances with related parties disclosed in the Financial Information during the Relevant Periods, Grand Profit entered into following transactions with related parties:

	Year ended 31 March			Six months ended 30 September	
	2007	2008	2009	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Sales to a fellow subsidiary	17,513	11,930	13,072	8,213	6,945
Rental expense paid to a fellow subsidiary	291	251	315	146	77
Expenses on share of use of facilities paid to a fellow subsidiary	43	40	49	22	12

- (b) The emolument paid/payable to key management personnel of Grand Profit is disclosed in note 9.
- (c) Details of cross guarantees given by Grand Profit to its fellow subsidiaries and details of corporate guarantee given by Easyknit International to a bank and legal charge created on a property of a fellow subsidiary for credit facilities granted to Grand Profit and its fellow subsidiaries are disclosed in note 20.

22. SUBSEQUENT EVENTS

There were no significant subsequent events after 30 September 2009.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Grand Profit subsequent to 30 September 2009.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
 Hong Kong

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma financial information of Easyknit Enterprises Holdings Limited (the “Company”) and its subsidiaries (collectively referred to the “Group”) together with Easyknit Global, Easyknit Worldwide and Grand Profit (collectively referred to as the “Enlarged Group”) has been prepared to demonstrate the effect of the proposed acquisition of the entire issued share capital of Easyknit Global, Easyknit Worldwide and Grand Profit (the “Acquisitions”) on the financial information of the Group.

The unaudited pro forma financial information of the Enlarged Group (the “Unaudited Pro Forma Financial Information”) has been prepared by the directors of the Company in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effects of the Acquisitions as if the Acquisitions had taken place on 30 September 2009 in the case of the unaudited pro forma consolidated statement of financial position of the Enlarged Group and on 1 April 2009 in the case of the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Enlarged Group.

The preparation of the unaudited pro forma consolidated statement of financial position of the Enlarged Group is based on (i) the unaudited consolidated statement of financial position of the Group as at 30 September 2009 which has been extracted from the published interim report of the Group for the six months ended 30 September 2009 as set out in Section 3 of Appendix I to this circular; (ii) the audited statement of financial position of Easyknit Global as at 30 September 2009 as extracted from the accountants’ report on Easyknit Global for the three years ended 31 March 2009 and the six months ended 30 September 2009 as set out in Section 1 of Appendix II to this circular; (iii) the audited statement of financial position of Easyknit Worldwide as at 30 September 2009 as extracted from the accountants’ report on Easyknit Worldwide for the three years ended 31 March 2009 and the six months ended 30 September 2009 as set out in Section 2 of Appendix II to this circular; and (iv) the audited statement of financial position of Grand Profit as at 30 September 2009 as extracted from the accountants’ report on Grand Profit for the three years ended 31 March 2009 and the six months ended 30 September 2009 as set out in Section 3 of Appendix II to this circular, after making pro forma adjustments relating to the Acquisitions that are (i) directly attributable to the transactions; and (ii) factually supportable, as if the Acquisitions had been completed on 30 September 2009.

The preparation of the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Enlarged Group is based on (i) the unaudited consolidated statement of comprehensive income and unaudited consolidated statement of cash flows of the Group for the six months ended 30 September 2009 which have been extracted from the published interim report of the Group for the six months ended 30 September 2009 as set out in Section 3 of Appendix I to this circular; (ii) the audited statement of comprehensive income and audited statement of cash flows of Easyknit Global for the six months ended 30 September 2009 as extracted from the accountants’ report on Easyknit Global as set out in Section 1 of Appendix II to this circular; (iii) the audited statement of comprehensive income and audited statement of cash flows of Easyknit Worldwide for the six months ended 30 September 2009 as extracted from the accountants’ report on Easyknit Worldwide as set out in Section 2 of Appendix II to this circular; and (iv) the

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

audited statement of comprehensive income and audited statement of cash flows of Grand Profit for the six months ended 30 September 2009 as extracted from the accountants' report on Grand Profit as set out in Section 3 of Appendix II to this circular, after making pro forma adjustments relating to the Acquisitions that are (i) directly attributable to the transactions; and (ii) factually supportable, as if the Acquisitions had been completed on 1 April 2009.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates and uncertainties. The accompanying Unaudited Pro Forma Financial Information does not purport to describe (i) the actual financial position of the Enlarged Group that would have been attained had the Acquisitions been completed on 30 September 2009; and (ii) the actual results and cash flows of the Enlarged Group that would have been attained had the Acquisitions been completed on 1 April 2009. The Unaudited Pro Forma Financial Information does not purport to predict the future financial position, results and cash flows of the Enlarged Group.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published interim report of the Group for the six months ended 30 September 2009 and other financial information included elsewhere in this circular.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

Unaudited Pro Forma Statement of Financial Position of the Enlarged Group

	The	Easyknit	Easyknit	Grand	Pro forma adjustments				Unaudited
	Group as	Global as	Worldwide	Profit as					pro forma
	at 30	at 30	as at 30	at 30					adjusted
	September	September	September	September					total for
2009	2009	2009	2009	HK\$'000	HK\$'000	HK\$'000	HK\$'000	the	
(Unaudited)	(Audited)	(Audited)	(Audited)	(Note a)	(Note b)	(Note c)	(Note d)	Enlarged	
								Group	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Non-current assets									
Property, plant and equipment	98,720	1,323	—	—	—	—	—	—	100,043
Investment properties	96,000	—	—	—	—	—	—	—	96,000
Prepaid lease payments	40,480	—	—	—	—	—	—	—	40,480
Goodwill	—	—	—	—	56,432	—	—	—	56,432
Deposits for acquisition of property, plant and equipment	38	—	—	—	—	—	—	—	38
	<u>235,238</u>	<u>1,323</u>	<u>—</u>	<u>—</u>	<u>56,432</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>292,993</u>
Current assets									
Inventories	3,740	—	—	—	—	—	—	—	3,740
Trade and other receivables	59,790	16,064	—	110	—	—	—	—	75,964
Bills receivable	—	37,919	—	—	—	—	—	—	37,919
Amounts due from fellow subsidiaries	—	2,072	—	5,293	—	(6,439)	(926)	—	—
Amounts due from subsidiaries of Easyknit International	—	—	—	—	—	6,439	—	—	6,439
Prepaid lease payments	881	—	—	—	—	—	—	—	881
Pledged bank deposits	10,000	—	—	—	—	—	—	—	10,000
Bank balances and cash	<u>51,148</u>	<u>277</u>	<u>35</u>	<u>38</u>	<u>(84,000)</u>	<u>—</u>	<u>—</u>	<u>32,502</u>	<u>—</u>
	<u>125,559</u>	<u>56,332</u>	<u>35</u>	<u>5,441</u>	<u>(84,000)</u>	<u>—</u>	<u>(926)</u>	<u>32,502</u>	<u>134,943</u>
Current liabilities									
Trade and other payables	13,355	21,635	10	1,090	—	—	—	—	36,090
Bills payable	—	11,633	—	—	—	—	—	—	11,633
Amounts due to fellow subsidiaries	—	259	—	936	—	(269)	(926)	—	—
Amount due to Easyknit International	—	94,658	34,234	70,624	(199,516)	—	—	—	—
Amounts due to subsidiaries of Easyknit International	—	—	—	—	—	269	—	—	269
Tax payable	6,612	—	—	—	—	—	—	—	6,612

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The	Easyknit	Easyknit	Grand	Pro forma adjustments				Unaudited
	Group as	Global as	Worldwide	Profit as					pro forma
	at 30	at 30	as at 30	at 30					adjusted
	September	September	September	September					total for
	2009	2009	2009	2009					the
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Enlarged
	(Unaudited)	(Audited)	(Audited)	(Audited)	(Note a)	(Note b)	(Note c)	(Note d)	Group
									Group
Bank overdraft	—	—	—	—	—	—	—	32,502	32,502
	19,967	128,185	34,244	72,650	(199,516)	—	(926)	32,502	87,106
Net current assets (liabilities)	<u>105,592</u>	<u>(71,853)</u>	<u>(34,209)</u>	<u>(67,209)</u>	<u>115,516</u>	—	—	—	<u>47,837</u>
Total assets less current liabilities	<u>340,830</u>	<u>(70,530)</u>	<u>(34,209)</u>	<u>(67,209)</u>	<u>171,948</u>	—	—	—	<u>340,830</u>
Non-current liabilities									
Deferred taxation	217	—	—	—	—	—	—	—	217
Net assets (liabilities)	<u><u>340,613</u></u>	<u><u>(70,530)</u></u>	<u><u>(34,209)</u></u>	<u><u>(67,209)</u></u>	<u><u>171,948</u></u>	<u>—</u>	<u>—</u>	<u>—</u>	<u><u>340,613</u></u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

Unaudited Pro Forma Statement of Comprehensive Income of the Enlarged Group

	The Group for the six months ended 30 September 2009 HK\$'000 (Unaudited)	Easyknit Global for the six months ended 30 September 2009 HK\$'000 (Audited)	Easyknit Worldwide for the six months ended 30 September 2009 HK\$'000 (Audited)	Grand Profit for the six months ended 30 September 2009 HK\$'000 (Audited)	Pro forma adjustment HK\$'000 (Note e)	Unaudited pro forma total for the Enlarged Group HK\$'000
Turnover	15,345	208,407	—	11,249	—	235,001
Cost of sales and services	<u>(17,778)</u>	<u>(184,664)</u>	<u>—</u>	<u>(10,430)</u>	<u>—</u>	<u>(212,872)</u>
Gross (loss) profit	(2,433)	23,743	—	819	—	22,129
Other income	612	307	1	162	(132)	950
Distribution and selling expenses	(133)	(4,088)	—	(63)	—	(4,284)
Administrative expenses	(8,773)	(13,354)	(15)	(766)	132	(22,776)
Other expenses	(143)	—	—	—	—	(143)
Write back of allowance for doubtful debts	57	—	—	—	—	57
Gain arising on fair value change of investment properties	301	—	—	—	—	301
Gain on fair value change of investments held for trading	643	—	—	—	—	643
Impairment loss recognised in respect of property, plant and equipment	<u>(5,338)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,338)</u>
(Loss) profit before taxation	(15,207)	6,608	(14)	152	—	(8,461)
Taxation	<u>(760)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(760)</u>
(Loss) profit and total comprehensive (expenses) income for the period	<u>(15,967)</u>	<u>6,608</u>	<u>(14)</u>	<u>152</u>	<u>—</u>	<u>(9,221)</u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

Unaudited Pro Forma Statement of Cash Flows of the Enlarged Group

	The Group for the six months ended 30 September 2009 <i>HK\$'000</i> <i>(Unaudited)</i>	Easyknit Global for the six months ended 30 September 2009 <i>HK\$'000</i> <i>(Audited)</i>	Easyknit Worldwide for the six months ended 30 September 2009 <i>HK\$'000</i> <i>(Audited)</i>	Grand Profit for the six months ended 30 September 2009 <i>HK\$'000</i> <i>(Audited)</i>	Pro forma adjustments <i>HK\$'000</i> <i>(Note f)</i> <i>HK\$'000</i> <i>(Note g)</i> <i>HK\$'000</i> <i>(Note h)</i>			Unaudited pro forma total for the Enlarged Group <i>HK\$'000</i>
Cash flows from operating activities								
(Loss) profit before taxation	(15,207)	6,608	(14)	152	—	—	—	(8,461)
Adjustments for:								
Interest income	(150)	(87)	—	—	—	—	—	(237)
Depreciation of property, plant and equipment	2,162	238	—	—	—	—	—	2,400
Amortisation of prepaid lease payments	440	—	—	—	—	—	—	440
Impairment loss on property, plant and equipment	5,338	—	—	—	—	—	—	5,338
Write back of allowance for doubtful debts	(57)	—	—	—	—	—	—	(57)
Allowance for inventories	821	—	—	—	—	—	—	821
Loss on disposal of property, plant and equipment	1,805	—	—	—	—	—	—	1,805
Gain on fair value change of investment properties	(301)	—	—	—	—	—	—	(301)
<hr/>								
Operating (loss) profit before movements in working capital	(5,149)	6,759	(14)	152	—	—	—	1,748
Decrease (increase) in inventories	1,447	1,113	—	(12)	—	—	—	2,548
Decrease in trade and other receivables	4,613	14,194	—	2,568	—	—	—	21,375
Decrease in bills receivable	—	1,261	—	—	—	—	—	1,261
Decrease (increase) in amounts due from fellow subsidiaries	—	2,521	728	(2,857)	—	1,395	(1,787)	—
Increase in amounts due from subsidiaries of Easyknit International	—	—	—	—	—	(1,395)	—	(1,395)

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	The Group	Easyknit	Easyknit	Grand	Pro forma adjustments			Unaudited
	for the six months ended 30 September 2009	Global for the six months ended 30 September 2009	Worldwide for the six months ended 30 September 2009	Profit for the six months ended 30 September 2009	HK\$'000 (Unaudited)	HK\$'000 (Note f)	HK\$'000 (Note g)	HK\$'000 (Note h)
Decrease in investments held for trading	4,056	—	—	—	—	—	—	4,056
(Decrease) increase in trade and other payables	(10,377)	10,953	(5)	681	—	—	—	1,252
(Decrease) increase in bills payable	(1,739)	1,950	—	—	—	—	—	211
(Decrease) increase in amounts due to fellow subsidiaries	—	—	—	(1,059)	—	—	1,059	—
Net cash (used in) from operating activities	<u>(7,149)</u>	<u>38,751</u>	<u>709</u>	<u>(527)</u>	<u>—</u>	<u>—</u>	<u>(728)</u>	<u>31,056</u>
Cash flows from investing activities								
Bank interest received	150	87	—	—	—	—	—	237
Purchase of investment properties	(95,699)	—	—	—	—	—	—	(95,699)
Purchase of property, plant and equipment	(1,030)	(12)	—	—	—	—	—	(1,042)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	—	—	—	—	(80,998)	—	—	(80,998)
Net cash (used in) from investing activities	<u>(96,579)</u>	<u>75</u>	<u>—</u>	<u>—</u>	<u>(80,998)</u>	<u>—</u>	<u>—</u>	<u>(177,502)</u>
Cash used in financing activities								
(Repayment to) advances from Easyknit International	—	(40,936)	(709)	454	—	—	—	(41,191)
(Repayment to) advances from fellow subsidiaries	—	(469)	—	—	—	(259)	728	—
Advances from subsidiaries of Easyknit International	—	—	—	—	—	259	—	259
Net cash (used in) from financing activities	<u>—</u>	<u>(41,405)</u>	<u>(709)</u>	<u>454</u>	<u>—</u>	<u>—</u>	<u>728</u>	<u>(40,932)</u>

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	The Group	Easyknit Global for	Easyknit Worldwide	Grand Profit for	Pro forma adjustments			Unaudited pro forma
	for the six months ended 30 September 2009	the six months ended 30 September 2009	for the six months ended 30 September 2009	the six months ended 30 September 2009	HK\$'000 (Note f)	HK\$'000 (Note g)	HK\$'000 (Note h)	total for the Enlarged Group HK\$'000
Net decrease in cash and cash equivalents	(103,728)	(2,579)	—	(73)	(80,998)	—	—	(187,378)
Cash and cash equivalents at beginning of the period	154,870	2,856	35	111	(3,002)	—	—	154,870
Effect of foreign exchange rate changes	<u>6</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6</u>
Cash and cash equivalents at end of the period	<u>51,148</u>	<u>277</u>	<u>35</u>	<u>38</u>	<u>(84,000)</u>	<u>—</u>	<u>—</u>	<u>(32,502)</u>
Represented by:								
Bank balances and cash	51,148	277	35	38	(51,498)	—	—	—
Bank overdraft	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(32,502)</u>	<u>—</u>	<u>—</u>	<u>(32,502)</u>
	<u>51,148</u>	<u>277</u>	<u>35</u>	<u>38</u>	<u>(84,000)</u>	<u>—</u>	<u>—</u>	<u>(32,502)</u>

Notes:

- (a) The adjustment represents (i) the payment of the consideration for the Acquisitions amounting to HK\$80,000,000; (ii) the payment of the estimated professional fee and expenses to be incurred by the Group for the Acquisitions of HK\$4,000,000, assuming the professional fee and expenses are settled by cash immediately after the Acquisitions; (iii) the waiver of the payables due to Easyknit International as at 30 September 2009 amounting to HK\$199,516,000 by Easyknit International before completion of the Acquisitions; and (iv) the recognition of goodwill of HK\$56,432,000 arising from the Acquisitions assuming that the Acquisitions had taken place on 30 September 2009.

The estimated goodwill is calculated by the consideration amounting to HK\$80,000,000 plus the estimated professional fee and expenses amounting to HK\$4,000,000 with the net asset values of the Target Companies after the waiver of the payables due to Easyknit International as at 30 September 2009, amounting to HK\$27,568,000.

Since the fair value of the identifiable assets and liabilities of the Target Companies at the date of completion of the Acquisitions may be substantially different from the book values used in the preparation of this unaudited pro forma financial information of the Enlarged Group, the fair values of the identifiable assets and liabilities of the Target Companies, as well as goodwill to be recognised in connection with the Acquisitions could be different from the amounts stated herein.

- (b) Being reclassification of the outstanding balances due from/to subsidiaries of Easyknit International as at 30 September 2009.

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- (c) Being elimination of the outstanding balances among the Target Companies as at 30 September 2009.
- (d) Being the adjustment for the recognition of a bank overdraft amounting to HK\$32,502,000 as if the Acquisitions had been completed on 30 September 2009. In the opinion of the Directors, the Group will have sufficient cash resources to fully settle the consideration for the Acquisitions at completion of the Acquisitions.
- (e) Being elimination of intercompany charges for use of facilities among the Target Companies amounting to HK\$12,000 and charges for use of facilities by the Target Companies against the Group amounting to HK\$120,000.
- (f) The adjustment reflects the net cash outflows amounting to HK\$84,000,000 resulting from the Acquisitions assuming the Acquisitions had taken place on 1 April 2009. The net cash outflows of HK\$80,998,000 represent the cash consideration for the Acquisitions of HK\$80,000,000 together with the estimated professional fee and expenses of HK\$4,000,000, less the total bank balances and cash of the Target Companies as at 1 April 2009 amounting to HK\$3,002,000.
- (g) Being reclassification of the cash flows of the amounts due from/to subsidiaries of Easyknit International.
- (h) Being elimination of the outstanding balances among the Target Companies as at 1 April 2009.
- (i) Except for the Acquisitions, no adjustment has been made to reflect any trading results or other transactions of the Group or the Target Companies entered into subsequent to 30 September 2009.
- (j) The above pro forma adjustments will not have continuing impact to the consolidated statement of comprehensive income and consolidated statement of cash flows of the Enlarged Group in subsequent financial years.

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**2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION**

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

TO THE DIRECTORS OF EASYKNIT ENTERPRISES HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Easyknit Enterprises Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) together with Easyknit Global Company Limited, Easyknit Worldwide Company Limited and Grand Profit Development Limited (collectively referred to as the “Enlarged Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed very substantial acquisition (the “Proposed Acquisition”) of the entire issued share capital of Easyknit Global Company Limited, Easyknit Worldwide Company Limited and Grand Profit Development Limited might have affected the financial information presented, for inclusion in Section 1 of Appendix III to the circular of the Company dated 29 January 2010 in connection with the Proposed Acquisition (the “Circular”). The basis of preparation of the unaudited pro forma financial information 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 financial information 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 financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
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primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 September 2009 or any future date;
or
- the results and cash flows of the Enlarged Group for the six months ended 30 September 2009 or any future period.

Opinion

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 January 2010

The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 31 October 2009 of the market value of a 100% equity interest in three trading and sourcing companies to be acquired by Easyknit Enterprises Holdings Limited.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

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香港灣仔港灣道6-8號瑞安中心3111-18室
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29 January 2010

The Directors

Easyknit International Holdings Limited

Easyknit Enterprises Holdings Limited

Unit A, 7th Floor

Hong Kong Spinners Building, Phase 6

Nos. 481-483 Castle Peak Road

Cheung Sha Wan, Kowloon

Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Easyknit International Holdings Limited and Easyknit Enterprises Holdings Limited (jointly referred to as the “Companies”) for us to provide our opinion on the total market value of a 100% equity interest in the following three companies (jointly referred to as the “Appraised Companies”):

1. Easyknit Global Company Limited (“Easyknit Global”)
2. Grand Profit Development Limited (“Grand Profit”)
3. Easyknit Worldwide Company Limited (“Easyknit Worldwide”)

This report describes the background of the Appraised Companies, an industry overview, the basis of valuation and valuation assumptions. It also explains the valuation methodology utilized and presents our conclusion of value.

BASIS OF VALUATION

We have conducted our valuation in accordance with the Business Valuation Standards published by the Hong Kong Business Valuation Forum in 2005. Our valuation has been carried out on the basis of market value. Market value is defined as *“the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”*.

DATE OF VALUATION

We have been instructed by the Companies to value the 100% equity interest in the Appraised Companies as at the date of valuation on 31 October 2009. The date of valuation is the specific point of time as of which our opinion of value applies. As markets and market conditions may change, the estimated value may be inaccurate or inappropriate at another time. The valuation amount will reflect the actual market status and circumstances as at the date of valuation, not as at either a past or future date.

BACKGROUND OF THE APPRAISED COMPANIES

Easyknit Global, Grand Profit and Easyknit Worldwide are private limited companies incorporated in Hong Kong. Their ultimate holding company is Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong. The address of the registered office and the principal place of business of the Appraised Companies is Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, Nos. 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong. The Appraised Companies are engaged in garment sourcing and trading with the main market in the United States.

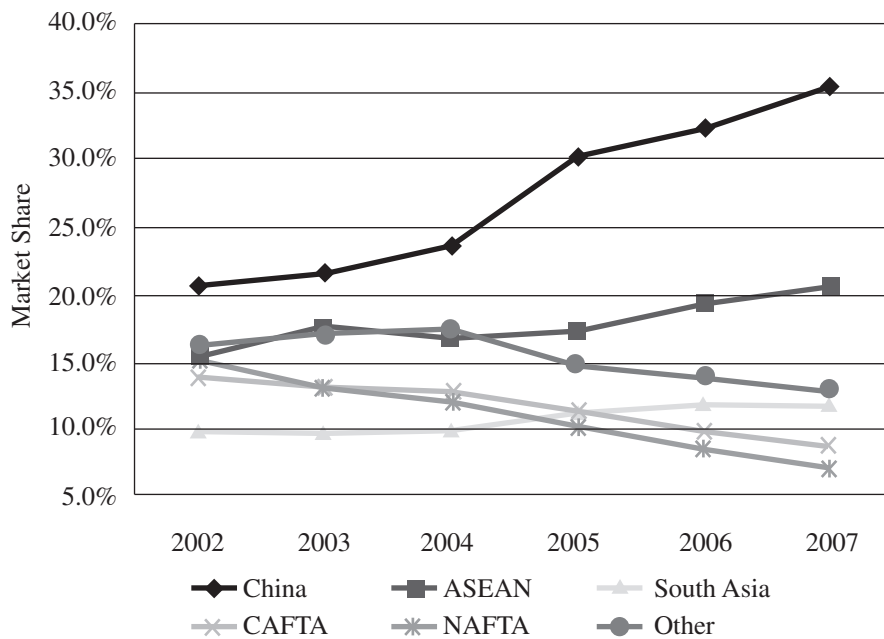
INDUSTRY OVERVIEW

The developed countries, such as the United States (the “US”) and those in the European Union (the “EU”) are net importers in the sector of textile and clothing as the developing countries enjoy low production cost due to substantially low labor cost and large quantity of labor supply. After the WTO General Agreement on Tariffs and Trade (GATT) has been brought into practice, there was a structural change in the textile and clothing import market of developed countries.

According to the United States Agency for International Development’s Report, China is the largest supplier of the textile and apparel to the United States and the European Union. It claimed 35% of the US and EU apparel import markets in 2007, up from 20% in 2002. This rapid growth has been largely at the expense of East Asian producers such as Taiwan, Korea and Hong Kong. More details were shown on the following graphs:

Figure 1

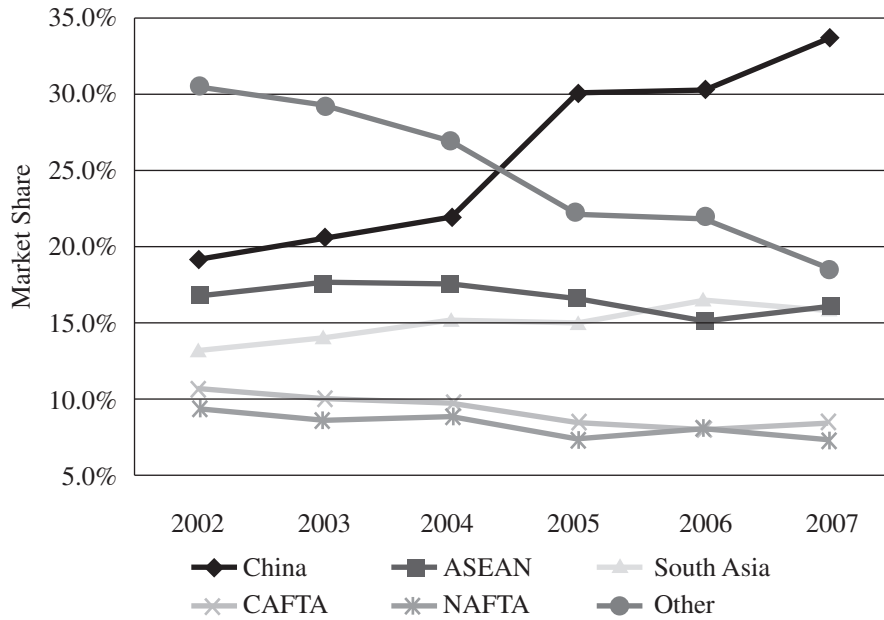
U.S. Market Shares



Source: Data from USITC; analysis by Nathan Associates Inc.

Figure 2

EU Market Shares



Source: Data from Eurostat; analysis by Nathan Associates Inc.

The following two tables give further details about the textile and apparel import markets in the US and the EU. Among the major suppliers, China, Vietnam, Indonesia, India and Bangladesh experienced large increase in their export amount to both areas, especially China whose export amount to the US in 2007 was more than double than the base level in 2004. However, some regional producers, such as Mexico, Honduras and non-regional producers such as Turkey and the Philippines have suffered after the quotas being phasing out.

Table 1: Selected Suppliers of Apparel with more than US\$500 Million in Exports to the United States

Country	Base 2002-2004 High Water Mark (US\$ millions)	Growth from High Water Mark to 2007 (% change)
China	12,834	104
Vietnam	2,504	72
Indonesia	2,459	66
Bangladesh	1,872	60
India	2,352	40
Honduras	2,743	(6)
Philippines	1,850	(7)
Guatemala	1,965	(25)
Colombia	590	(35)
Mexico	7,680	(39)
Costa Rica	729	(42)
Dominican Republic	2,134	(51)
Turkey	1,297	(55)
Average (large suppliers)	—	18

Source: Data from USITC; Analysis by Nathan Associates Inc.

Table 2: Selected Suppliers of Apparel with more than €500 Million in Exports to the EU

Country	Base 2002-2004 High Water Mark (€ millions)	Growth from High Water Mark to 2007 (% change)
China	12,168	84
Vietnam	682	61
India	2,764	49
Bangladesh	3,691	17
Turkey	7,712	14
Morocco	2,616	(3)
Tunisia	2,902	(11)
Indoesia	1,492	(18)
Mauritius	613	(22)
Romania	3,726	(30)
Average (all large suppliers)	—	24

Source: Data from Eurostat; Analysis by Nathan Associates Inc.

This information shows that the large suppliers, such as China are the winners after the quota abolition while some relative small suppliers lost their market shares. In 2009 and 2008, China further increased its market share in the US and the EU. For textiles, China's market shares were 35.9% and 29.8% (Table 3) in the US and the EU respectively and 39.4% and 42.8% (Table 4) for clothing.

Table 3**China's by value share of US textile and clothing markets (%)**

Year	Textiles		Clothing	
	Share	Growth rate	Share	Growth rate
1999	11.9	11.9	13.2	3.9
2000	12.2	15.0	13.3	15.4
2001	12.9	1.7	14.0	3.9
2002	15.8	35.3	15.1	8.7
2003	19.9	35.3	16.9	19.2
2004	22.3	27.0	19.0	19.8
2005	26.9	31.8	26.4	46.9
2006	29.6	14.8	29.4	15.4
2007	31.8	10.1	33.6	16.9
2008	34.1	2.9	34.7	0.2
2009	35.9	(14.9)	39.4	1.6

Source: COMTRADE, except for 2009, which were estimated using Otexa data for the first quarter of 2009

Table 4**Changes in China's by value share of EU-27 textile and clothing markets (%)**

Year	Textiles		Clothing	
	China's share	Growth rate	China's share	Growth rate
2001	12.5	1.2	21.8	4.4
2002	14.5	16.0	23.8	15.8
2003	16.7	32.4	25.2	27.6
2004	19.1	36.3	26.9	25.1
2005	23.4	25.3	35.3	43.4
2006	25.6	21.7	35.0	12.6
2007	27.1	21.0	38.3	24.0
2008	29.8	12.5	42.8	23.4

Source: Import data from COMTRADE

SOURCE OF INFORMATION

For the purpose of our valuation, we were furnished with the financial and operational information of the Appraised Companies, which were provided by the senior management of the Companies.

The valuation required consideration of all pertinent factors affecting the economic benefits of the Appraised Companies and their abilities to generate future investment returns. The factors considered in our valuation included, but were not limited to, the following:

- The business nature and characteristics of the Appraised Companies including operational activities, the overall industry and the market condition where the Appraised Companies currently operate or will operate;
- The financial and operational information of the Appraised Companies;
- The specific economic environment and competition for the market in which the Appraised Companies currently operate or will operate;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks related to the Appraised Companies, including the continuity of revenues and incomes and the projected future results.

SCOPE OF WORKS

In the course of our valuation work, we have conducted the following processes to evaluate the reasonableness of the adopted basis and assumptions provided by the senior management of the Companies:

- Interviewed with the senior management of the Companies;
- Obtained all relevant financial and operational information of the Appraised Companies;
- Performed market research and obtained statistical figures from public sources;
- Examined all relevant bases and assumptions of both the financial and operational information of the Appraised Companies, which were provided by the senior management of the Companies;
- Prepared a valuation model to derive the indicated total value of the 100% interest in the Appraised Companies; and
- Presented all relevant information on the background of the Appraised Companies, an industry overview, source of information, scope of works, valuation assumptions, valuation methodology, comments and our conclusion of value in this report.

VALUATION ASSUMPTIONS

Due to the changing environment in which the Appraised Companies currently operate or will operate, a number of assumptions had to be established in order to sufficiently support our concluded value. The major assumptions adopted in our valuation are:

- There will be no material change in the existing political, legal, fiscal, technological, market and economic conditions in the jurisdiction where the Appraised Companies currently operate or will operate, which will affect the revenues and incomes being generated;
- There will be no material change in the taxation laws and regulations in the jurisdiction where the Appraised Companies currently operate or will operate, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- Exchange rates and interest rates will not differ materially from those presently prevailing and market and economic conditions will not deviate significantly from that of forecasts;
- Economic conditions will not deviate significantly from economic forecasts;
- The core business operations of the Appraised Companies will not differ materially from those at present or expected;
- The financial and operational information in respect of the Appraised Companies have been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful considerations by the senior management of the Companies.

We consider these assumptions are reasonable and reliable.

VALUATION METHODOLOGY

Three generally accepted valuation methodologies have been considered in valuing the Appraised Companies. They are the *cost approach*, the *market approach* and the *income approach*.

The *cost approach* provides indications of value by studying the amounts required to recreate the business for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future operational capability of the business.

Under the cost approach, the historic cost approach measures the costs incurred through the construction or development of the business at the time it was constructed or developed; the replication cost approach measures the amount of investment needed to develop a similar business at the present time; and the replacement cost approach measures the amount of money that would be needed to construct or develop the business as it currently exists.

The *market approach* provides indications of value by comparing the target subjected to valuation to similar businesses, business ownership interests and securities that have been sold in the market, with appropriate adjustments for the differences between the target subjected to valuation and the comparable companies.

Under the market approach, the guideline company method computes a value multiple for each publicly listed comparable company and then applies the result to a base to arrive at an indication of value. The sales comparison method computes the value multiple using recent sales and purchase transactions of comparable companies to arrive at an indication of value.

The *income approach* is the conversion of expected periodic benefits of an ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar company with a similar risk profile.

We have considered that the income approach is not appropriate to value the Appraised Companies, as there are insufficient and reliable forecasted financial and operational data of the Appraised Companies. Moreover, the income approach may involve adoption of much more assumptions than the other two approaches, not all of which can be easily quantified or ascertained. In the event of any such assumptions are founded to be incorrect or unfounded, the valuation result would be significantly affected. The cost approach is also regarded inadequate in this valuation, as this approach does not take future growth potential of the Appraised Companies into consideration. Thus, we have determined that the market approach is the most appropriate valuation approach for this valuation.

The market approach refers to either comparable company analysis, an attempt to measure value by employing the market values of public companies possessing attributes similar to the appraised company as benchmarks, or transaction multiple technique, with which similar acquisitions or divestitures are identified and the multiples implied by the purchase prices are used to assess the appraised company's value. Considering the listed company purely engaged in garment trading and sourcing is not available for comparison purposes and we then used the market approach by referring to recent acquisition transactions of the sourcing and trading companies.

The comparable transactions were selected based on the following criteria:

1. The transactions which took place from 2007 up to now were examined.
2. The target companies are principally engaged in trading and sourcing businesses in the garment industry.
3. The target companies operate on a global basis.

According to our market research, there are no other trading and sourcing company acquisition transaction that may be comparable to the Appraised Companies and have sufficient information available for our valuation purposes, except for Li & Fung Limited (referred to as the “Li & Fung”). Li & Fung is one of the world’s leading buying agencies for consumer goods, managing the supply chain for retailers and brands worldwide and committed to pursue its acquisition strategy for years. Therefore, we consider the acquisitions of trading and sourcing companies undertaken by Li & Fung represent reasonable indicators for fair market values of such companies.

We examined all 18 transactions undertaken by Li & Fung from 2007 up to now and taking into account the similarity between the businesses of those acquisition targets and that of the Appraised Companies, 5 transactions (referred to as the “Transactions”) related to the garment and apparel sourcing business acquisitions were selected.

Details of the Transactions are as follows:

	Announcement Date	Acquirer	Target
1	10 February 2007	Li & Fung	Global sourcing operations of Tommy Hilfiger
2	13 August 2008	Li & Fung	Sourcing businesses of Van Zeeland Inc.
3	19 October 2009	Li & Fung	Sourcing businesses of Wear Me Apparel, LLC.
4	23 February 2009	Li & Fung	Sourcing operations of Liz Claiborne, Inc.
5	July 2008	Li & Fung	RT Sourcing

To the best of our knowledge, we considered the Transactions were exhaustive. Among all the transactions examined, we have to exclude those transactions with insufficient information available for valuation purposes, lack of disclosure of historical earnings for example.

For the acquisition of sourcing operations of Liz Claiborne Inc., only sourcing volume for the fiscal year 2007 attributable to the sourcing operations under acquisition was disclosed. Meanwhile, only the actual turnover of 2007 was disclosed for Li & Fung’s acquisition of RT Sourcing. Therefore, these two transactions were excluded in our selection of comparable transactions.

Taking into account the nature of the Transactions, the similarity of the Transactions and the acquisition of the Appraised Companies and the availability of relevant information, 3 out of the 5 transactions were selected as the comparable transactions (referred to as the “Comparable Transactions”). The Comparable Transactions were selected according to the availability of the key parameters for our valuation purposes, i.e. historical earnings after tax, and the sample size is considered adequate together with basis. Details of the Comparable Transactions are as follows:

Announcement Date	Acquirer	Target	Business Activities	% of Acquisition
10 February 2007	Li & Fung	Global sourcing operations of Tommy Hilfiger	Tommy Hilfiger is one of the largest and most globally developed designer brands in the world and has attained a unique positioning as a premium American lifestyle brand. Tommy Hilfiger focuses on menswear, womenswear, jeanswear and childrenswear. The seller sources the merchandise from Hong Kong, Taiwan, India, Bangladesh, Sri Lanka, Tunisia, USA and Honduras.	100%
13 August 2008	Li & Fung	Sourcing businesses of Van Zeeland Inc.	Van Zeeland is engaged in the business designing, arranging for the design and production sourcing of, importing, marketing and selling women’s branded and private label handbags, purses and related accessories.	100%
19 October 2009	Li & Fung	Sourcing businesses of Wear Me Apparel, LLC.	Wear Me Apparel, LLC is a leading designer, marketer and seller of young men’s and children’s apparel in the USA and manages a portfolio of licensed national brands, proprietary brands, private labels and character licenses, including Calvin, Marvel, Nickelodeon, Warner Brothers and Hasbro, with a distribution channel from traditional and mid-tier department stores to mass merchants including Macy’s, Kohl’s and Wal-Mart.	100%

We consider the three transactions to be relevant comparables for our assessment of the market value of the Appraised Companies. The businesses of the Comparable Transactions are closely similar to the business of the Appraised Companies in terms of nature of business (being sourcing and trading) as well as product and customer profiles. The above, coupled with the transparent and open nature of the garment market, renders the three transactions representative and sufficient for our assessment.

The businesses of the sellers of the Comparable Transactions are closely related to the garment industry all over the world, which is considered to be similar to the business of the Appraised Companies. Although there are only 3 transactions which were selected as the Comparable Transactions, we considered such 3 transactions to be the most representative and relevant comparables for our assessing the market value of the Appraised Companies.

In the valuation, we used the consideration price to earnings after tax (referred to as the “Consideration/Earnings”) multiples of the Comparable Transactions to determine the market value of the Appraised Companies. The latest profits after tax of the acquired businesses prior to the announcement dates of the Comparable Transactions based on the audited accounts as extracted from the announcements/circulars issued by the Li & Fung were adopted in our valuation. Details of the Consideration/Earnings multiples adopted are as follows:

Note	Announcement Date	Target	Consideration (US\$)	Earnings (US\$)	Consideration/Earnings
1	10 February 2007	Global sourcing operations of Tommy Hilfiger	247,800,000	31,000,000	7.99
2	13 August 2008	Sourcing businesses of Van Zeeland Inc.	330,000,000	38,000,000	8.68
3	19 October 2009	Sourcing businesses of Wear Me Apparel, LLC.	101,800,000	11,900,000	8.55
				Average:	<u>8.41</u>

Notes:

1. Circular issued by Li & Fung on 2 March 2007;
2. Circular issued by Li & Fung on 2 September 2008;
3. Announcement issued by Li & Fung on 19 October 2009.

Having considered that the Consideration/Earnings multiples of the Comparable Transactions remained stable over the past 3 years, we are of the view that the average Consideration/Earnings multiple is able to provide a reasonable benchmark for our accessing the value of the Appraised Companies.

The average Consideration/Earnings multiple of 8.41 was applied to the Appraised Companies' combined net profit of HK\$10,658,000 for the year ended 31 March 2009, which was calculated by aggregating the profits of the Appraised Companies and adjusting for inter-company transaction.

COMMENTS

For the purpose of our valuation and in arriving at our opinion of value, we referred to the information provided by the senior management of the Companies. We have also sought and received confirmation from the Companies that no material facts were omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Hong Kong Dollars (HK\$) and no allowances have been made for any exchange transfers.

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Companies, the Appraised Companies or us.

Based on our investigation and analysis outlined in this report, our opinion on the total market value of 100% equity interest in the Appraised Companies as at 31 October 2009 was HK\$89,600,000 (HONG KONG DOLLARS EIGHTY NINE MILLION AND SIX HUNDRED THOUSAND ONLY).

We hereby certify that we have neither present nor prospective interest in the Companies, the Appraised Companies or the value reported.

Yours faithfully,
For and on behalf of

BMI APPRAISALS LIMITED

Dr. Tony C. H. Cheng

*BSc, MUD, MBA(Finance), MSc(Eng), PhD(Econ),
FCIM, FRSM, SICME, SIFM, MHKIS, MCIArb,
AFA, MASCE, MIET, MIEEE, MASME, MIEE,
MASHRAE, MAIC
Managing Director*

Marco T. C. Sze

*B.Eng(Hon), PGD(Eng), MBA(Acct),
CFA, AICPA/ABV, RBV
Director*

Notes:

1. Dr. Tony C. H. Cheng serves as the Chairman of Institute of Mechanical Engineers, China and is a member of the Hong Kong Institute of Surveyors (General Practice), a member of the American Society of Civil Engineers, a member of the American Society of Mechanical Engineers and a member of Institute of Industrial Engineers (U.K.). He has over 5 years' experience in valuing similar assets or companies engaged in similar business activities as those of the Appraised Companies worldwide.
2. Mr. Marco T. C. Sze is a holder of Chartered Financial Analyst, a member of the American Institute of Certified Public Accountants (AICPA) and is accredited in Business Valuation by the AICPA. In addition, he is a Registered Business Valuer under the Hong Kong Business Valuation Forum. He has over 3 years' experience in valuing similar assets or companies engaged in similar business activities as those of the Appraised Companies worldwide.

Set out below is the management discussion and analysis of the Target Companies for the three years ended 31 March 2009 and the six months ended 30 September 2009. The following should be read in conjunction with the historical combined financial information together with the accompanying notes set out in the Accountants' Report of the Target Companies contained in Appendix II to this circular.

1. EASYKNIT GLOBAL

For the three years ended 31 March 2009 and the six months ended 30 September 2009

Financial and business review

Easyknit Global was largely inactive during the year ended 31 March 2007 and commenced the Garment Trading Business during the year ended 31 March 2008. For the three years ended 31 March 2009 and the six months ended 30 September 2009, Easyknit Global recorded turnovers of HK\$nil, HK\$225,958,000, HK\$369,338,000 and HK\$208,407,000 respectively. The entire amounts of turnover for the respective financial year/ period were attributable to the sourcing and distribution of women and children garments. The costs of sales were primarily attributable to the costs of garments sourced from the suppliers and amounted to HK\$nil, HK\$195,998,000, HK\$325,471,000 and HK\$184,664,000 for the three years ended 31 March 2009 and six months ended 30 September 2009 respectively. The gross profit margin for the years ended 31 March 2008 and 31 March 2009 and six months ended 30 September 2009 were 13.3%, 11.9% and 11.4% respectively. The decrease in the gross profit margins in 2008 and 2009 was mainly attributable to economic downturn in the major target markets of Easyknit Global, which led to reduced demand from customers and a decrease in selling prices of garments.

Easyknit Global incurred distribution and selling expenses of HK\$nil, HK\$4,383,000, HK\$7,397,000 and HK\$4,088,000 for the three years ended 31 March 2009 and the six months ended 30 September 2009 respectively. The administrative expenses for the same years/ period were HK\$14,000, HK\$14,348,000, HK\$27,335,000 and HK\$13,354,000 respectively, which included mainly operating leases expenses and staff costs (which is discussed in the section "Employment and remuneration policy" below).

No finance cost was incurred for the three years ended 31 March 2009 and six months ended 30 September 2009 as there were no bank borrowings during the periods under review.

The operating cash inflow/(outflow) of Easyknit Global was HK\$(13,000), HK\$(14,214,000), HK\$(17,493,000) and HK\$38,751,000 for the three financial years ended 31 March 2009 and the six months ended 30 September 2009 respectively. Easyknit Global had no business activities during the financial year ended 31 March 2007. It recorded negative operating cash flow for the financial year ended 31 March 2008 as it commenced operations and hence recorded increase in trade and other receivables and bill receivables during the year ended 31 March 2008. Such circumstance continued

in the financial year ended 31 March 2009 as its turnover rose, resulting in negative operating cash flow. Easyknit Global recorded a positive operating cash flow for the six months ended 30 September 2009 as its business and working capital management improved due to faster collection of receivables while payables were managed more efficiently.

Liquidity, financial resources and capital structure

The net liabilities of Easyknit Global were HK\$99,551,000, HK\$86,822,000, HK\$77,138,000, and HK\$70,530,000 for the three years ended 31 March 2009 and the six months ended 30 September 2009 respectively. During the periods under review, Easyknit Global's working capital was primarily funded by advances from Easyknit International, its ultimate holding company. Upon completion of the Transaction, the amount due to Easyknit International of HK\$94,658,000 will be eliminated by Easyknit International and hence Easyknit Global will have a net current assets position.

The balances of cash and cash equivalent for the three years ended 31 March 2009 and the six months ended 30 September 2009 were HK\$9,000, HK\$17,871,000, HK\$2,856,000 and HK\$277,000 respectively. Easyknit Global incurred negative cash flow from operations for the financial years ended 31 March 2008 and 31 March 2009 and the shortfall in cash was mitigated by advances from Easyknit International, its ultimate holding company. During the six months ended 30 September 2009, Easyknit Global generated positive operating cash flow of HK\$38,751,000, and repaid Easyknit International HK\$40,936,000.

The trade and bills receivables of Easyknit Global were HK\$ nil, HK\$37,310,000, HK\$43,648,000 and HK\$43,243,000 respectively for the three years ended 31 March 2009 and the six months ended 30 September 2009. The increase in trade and other receivables in 2008 was mainly due to the increase in deposits with suppliers for the Garment Trading Business. The trade receivable turnover days were 60 days, 43 days and 38 days for the two years ended 31 March 2009 and six months ended 30 September 2009 respectively. As the normal credit terms extended to customers are 30 days, the Directors consider that Easyknit Global's management of debt collection has been improving.

Exposure to fluctuation in exchange rates and related hedges

Most of Easyknit Global's revenues and payments are in Hong Kong dollars and US dollars. As Hong Kong dollars are pegged to US dollars, Easyknit Global had no significant exposure to fluctuations in exchange rates during the periods under review.

Charge on assets

Easyknit Global did not have any charges on assets during the periods under review.

Contingent liabilities

At 31 March 2009, Easyknit Global had given an unlimited cross guarantee to a bank to secure general credit facilities amounting to HK\$20,000,000 granted to Easyknit Global and a fellow subsidiary. The outstanding amount of facilities utilised by Easyknit Global amounted to HK\$1,979,000 as at 31 March 2009. No outstanding amount of facilities was utilised by the fellow subsidiary as at 31 March 2009.

The above credit facilities were also guaranteed by Easyknit International and secured by an investment property owned by a fellow subsidiary. The credit facilities were released during the six months ended 30 September 2009.

At 31 March 2009, the fair value of the financial guarantee given to a bank in respect of credit facilities granted to Easyknit Global's fellow subsidiary by such bank at the date of inception was immaterial.

Employment and remuneration policy

As at 31 March 2007, 31 March 2008, 31 March 2009 and 30 September 2009, Easyknit Global employed approximately 63, 60, 58, and 54 full time staff and workers in Hong Kong respectively. Staff cost (excluding director's remuneration) incurred by Easyknit Global amounted to approximately HK\$nil, HK\$8,034,000, HK\$14,791,000, and HK\$7,470,000 for the three years ended 31 March 2009 and the six months ended 30 September 2009 respectively. Part of the staff costs is allocated to Easyknit Worldwide and Grand Profit for their share of the Garment Trading Business. Easyknit Global remunerates its employees based on their performance, experience and prevailing industry practice. Easyknit Global has adopted the Mandatory Provident Fund Scheme for the Hong Kong employees.

2. EASYKNIT WORLDWIDE

For the three years ended 31 March 2009 and the six months ended 30 September 2009

Financial and business review

Easyknit Worldwide forms part of the Garment Trading Business and commenced the Garment Trading Business during the year ended 31 March 2008. For the three years ended 31 March 2009 and the six months ended 30 September 2009. Easyknit Worldwide recorded turnovers of HK\$nil, HK\$15,757,000, HK\$nil and HK\$nil respectively. The entire turnover of Easyknit Worldwide for the financial year ended 31 March 2008 was attributable to the sourcing and distribution of women and children garments. The cost of sales was primarily attributable to the cost of garments sourced from the garment suppliers and amounted to HK\$13,615,000 for the year ended 31 March 2008. The gross profit margin was 13.6% for year ended 31 March 2008, which was in line with the rest of the Garment Trading Business during the year. The Vendor advised that no turnover was recorded during the years ended 31 March 2007 and March 2009 as the trading transactions were carried out by Easyknit Global and Grand Profit at the management's discretion.

Easyknit Worldwide incurred distribution and selling expenses of HK\$514,000 for the year ended 31 March 2008. The administrative expenses were HK\$14,000, HK\$1,090,000, HK\$120,000 and HK\$15,000 for the three years ended 31 March 2009 and the six months ended 30 September 2009 respectively, which included mainly accountants' remuneration and staff costs (which is discussed in the section "Employment and remuneration policy" below).

No finance cost was incurred for the three years ended 31 March 2009 and six months ended 30 September 2009 as there were no bank borrowings during the periods under review.

The operating cash inflow/(outflow) of Easyknit Worldwide was HK\$(13,000), HK\$(284,000), HK\$257,000 and HK\$709,000 for the three years ended 31 March 2009 and the six months ended 30 September 2009 respectively. As Easyknit Worldwide only carried out the Garment Trading Business during the year ended 31 March 2008 and most trade receivables were subsequently settled during year ended 31 March 2009, the change in operating cash flow was mainly attributable to the change in the amounts due from fellow subsidiaries resulting from intercompany transactions.

Liquidity, financial resources and capital structure

The net liabilities of Easyknit Worldwide were HK\$34,895,000, HK\$34,075,000, HK\$34,195,000, and HK\$34,209,000 for the three years ended 31 March 2009 and the six months ended 30 September 2009 respectively. During the periods under review, Easyknit Worldwide's working capital was primarily funded by advances from Easyknit International, its ultimate holding company. Upon completion of the Transaction, the amount due to Easyknit International of HK\$34,234,000 will be eliminated by Easyknit International, and Easyknit Worldwide will have a net current assets position.

The balances of cash and cash equivalent for the three years ended 31 March 2009 and the six months ended 30 September 2009 were HK\$10,000, HK\$145,000, HK\$35,000 and HK\$35,000 respectively. Easyknit Worldwide incurred negative cash flow from operations for the financial years ended 31 March 2007 and 31 March 2008 and the shortfall in cash was mitigated by advances from Easyknit International, its ultimate holding company. During the six months ended 30 September 2009, Easyknit Worldwide generated positive operating cash flow of HK\$709,000, which was used to repay the amount due to Easyknit International during the same period.

The trade receivables of Easyknit Worldwide were HK\$ nil, HK\$46,000, HK\$nil and HK\$nil respectively for the three years ended 31 March 2009 and the six months ended 30 September 2009. The trade receivable turnover days was 1 day for the year ended 31 March 2008. As the normal credit term extended to customers is 30 days, the Directors consider that Easyknit Worldwide managed debt collection efficiently in 2008.

Exposure to fluctuation in exchange rates and related hedges

Most of Easyknit Worldwide's revenues, payments, and assets are denominated in Hong Kong dollars and US dollars. As Hong Kong dollars are pegged to US dollars, Easyknit Worldwide had no significant exposure to fluctuations in exchange rates during the periods under review.

Charge on assets

Easyknit Worldwide did not have any charges on assets during the periods under review.

Contingent liabilities

Easyknit Worldwide did not have any significant contingent liabilities as at 30 September 2009 (as at 31 March 2007: nil; as at 31 March 2008: nil; as at 31 March 2009: nil).

Employment and remuneration policy

As at 31 March 2007, 31 March 2008, 31 March 2009 and 30 September 2009, Easyknit Worldwide did not have any headcount under its direct employment. Staff cost (excluding director's remuneration) amounted to approximately HK\$582,000 for the year ended 31 March 2008 (and nil for the other financial periods under review) and was allocated from Easyknit Global for its share of expenses incurred for the Garment Trading Business.

3. GRAND PROFIT***For the three years ended 31 March 2009 and the six months ended 30 September 2009*****Financial and business review**

Grand Profit commenced the Garment Trading Business for the Easyknit International Group during the year ended 31 March 2000. For the three years ended 31 March 2009 and the six months ended 30 September 2009, Grand Profit recorded turnovers of HK\$50,470,000, HK\$44,511,000, HK\$43,045,000 and HK\$11,249,000 respectively. The entire amounts of turnover for the respective financial year/ period were attributable to the sourcing and distribution of women's and children's garments. The costs of sales were primarily attributable to the costs of garments sourced from the garment suppliers and amounted to HK\$45,743,000, HK\$40,021,000, HK\$39,491,000 and HK\$10,430,000 respectively for the three years ended 31 March 2009 and six months ended 30 September 2009. The gross profit margin for the three years ended 31 March 2009 and six months ended 30 September 2009 were 9.4%, 10.1%, 8.3% and 7.3% respectively. The decrease in the gross profit margins in 2009 was mainly attributable to the economic downturn in the major target markets of Grand Profit, which led to reduced demand from customers and a decrease in selling price of garments.

Grand Profit incurred distribution and selling expenses of HK\$585,000, HK\$282,000, HK\$231,000 and HK\$63,000 for the three years ended 31 March 2009 and the six months ended 30 September 2009 respectively. The administrative expenses for the same years/ period were HK\$2,972,000, HK\$2,879,000, HK\$3,127,000 and HK\$766,000 respectively, which included mainly operating leases expenses and staff costs (which is discussed in the section "Employment and remuneration policy" below). The operating profit margins were 2.4%, 4.2%, 2.5% and 1.4% for the three years ended 31 March 2009 and the six months ended 30 September 2009 respectively. The decrease of the operating profit margins was in line with the compression of the gross profit margin despite management's effort in cost control during the tough operating environment.

No finance cost was incurred for the three years ended 31 March 2009 and six months ended 30 September 2009 as there were no bank borrowings during the periods under review.

The operating cash inflow/(outflow) of Grand Profit were HK\$6,194,000, HK\$3,158,000, HK\$133,000 and HK\$(527,000) for the three years ended 31 March 2009 and the six months ended 30 September 2009 respectively. The operating cash flow for the year ended 31 March 2008 was lower than that for the year ended 31 March 2007 due to lower sales and slower collection of trade receivables. Operating cash flow further decreased for the year ended 31 March 2009 and the six months ended 30 September 2009 as the sales continued to decline and the trade payable balance decreased during the year/period.

Liquidity, financial resources and capital structure

The net liabilities of Grand Profit were HK\$70,304,000, HK\$68,455,000, HK\$67,361,000, and HK\$67,209,000 for the three years ended 31 March 2009 and the six months ended 30 September 2009 respectively. During the periods under review, Grand Profit's working capital was primarily funded by advances from Easyknit International, its ultimate holding company. Upon completion of the Transaction, the amount due to Easyknit International of HK\$70,624,000 will be eliminated by Easyknit International, and Grand Profit will have a net current assets position.

The balances of cash and cash equivalent for the three years ended 31 March 2009 and the six months ended 30 September 2009 were HK\$59,000, HK\$95,000, HK\$111,000 and HK\$38,000 respectively. Grand Profit incurred positive cash flow from operations for the three financial years ended 31 March 2009. Nevertheless, during the six months ended 30 September 2009, Grand Profit has generated negative operating cash flow of HK\$527,000, and was mitigated by advance of Easyknit International of HK\$454,000.

The trade receivables of Grand Profit were HK\$ 3,080,000, HK\$2,416,000, HK\$1,475,000 and HK\$78,000 respectively for the three years ended 31 March 2009 and the six months ended 30 September 2009. Grand Profit recognised an allowance for doubtful debt of HK\$2,091,000 for the year ended 31 March 2005 which was attributable to the long outstanding trade receivable from garment sale and quota sale in 2001 and 2002 respectively and was written off during the year ended 31 March 2008. The trade receivable turnover days were 22 days, 20 days, 13 days and 1 day for the three years ended 31 March 2009 and six months ended 30 September 2009 respectively. As the normal credit terms extended to customers are 30 days, the Directors consider that Grand Profit has been managing debt collection efficiently. The decrease in trade and other receivables and trade receivable turnover days in 2008 and 2009 was mainly due to (i) the company's improved efforts in debt collection; and (ii) the decrease in turnover amid the economic downturn in target markets during the years/period.

Exposure to fluctuation in exchange rates and related hedges

Most of Grand Profit's revenues and payments are in Hong Kong dollars and US dollars. As the Hong Kong dollars are pegged to the US dollars, Grand Profit had no significant exposure to fluctuations in exchange rates during the periods under review.

Charge on assets

Grand Profit did not have any charges on assets during the periods under review.

Contingent liabilities

At 31 March 2007, 2008 and 2009, Grand Profit had given unlimited cross guarantees to a bank to secure general credit facilities amounting to HK\$70,000,000, HK\$70,000,000 and HK\$20,000,000, respectively, granted to Grand Profit and its fellow subsidiaries. The outstanding amount of facilities utilised by Grand Profit amounted to nil, HK\$1,444,000 and nil, respectively, as at 31 March 2007, 2008 and 2009. The outstanding amount of facilities utilised by the fellow subsidiaries amounted to nil, nil and HK\$1,979,000, respectively, as at 31 March 2007, 2008 and 2009.

The above credit facilities were also guaranteed by Easyknit International and secured by an investment property owned by a fellow subsidiary. The credit facilities were released during the six months ended 30 September 2009.

At 31 March 2007, 2008 and 2009, the fair value of the financial guarantee given to a bank in respect of credit facilities granted to Grand Profit's fellow subsidiaries by such bank at the date of inception was immaterial.

Employment and remuneration policy

As at 31 March 2007, 31 March 2008, 31 March 2009 and 30 September 2009, Grand Profit did not have any headcount under its direct employment. Staff cost (excluding director's remuneration) amounted to approximately HK\$1,669,000, HK\$1,582,000, HK\$1,724,000, and HK\$403,000 for the three years ended 31 March 2009 and the six months ended 30 September 2009 respectively and were allocated from Easyknit Global for its share of expenses incurred for the Garment Trading Business.

APPENDIX VI ADDITIONAL FINANCIAL INFORMATION, MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP AND THE ENLARGED GROUP

1. INDEBTEDNESS STATEMENT

At the close of business on 31 December 2009, being the latest practicable date for ascertaining this information prior to printing of this circular, the Enlarged Group had no outstanding borrowings. Its available banking facilities were secured by a fixed charge over a bank deposit of the Enlarged Group amounting to HK\$10,000,000 at 31 December 2009, and guaranteed by the Company and the existing ultimate holding company of the Target Companies.

Apart from intra-group liabilities, the Enlarged Group did not have at the close of business on 31 December 2009 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.

2. WORKING CAPITAL STATEMENT

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

3. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

Set out below is the management discussion and analysis of the Group as extracted from the interim report of the Group for the six months ended 30 September 2009 and the annual reports of the Group for the three financial years ended 31 March 2009 (the "Financial Information"). Terms used below shall have the same meaning as those defined in the Financial Information. Furthermore, all pages/sections/ appendices mentioned in the text below are references to those of the relevant Financial Information.

For the six months ended 30 September 2009

Financial Results

During the six month ended 30 September 2009, the Group recorded a turnover of approximately HK\$15,345,000 (six months ended 30 September 2008: approximately HK\$23,875,000), representing a decrease of approximately 35.7% from the same period last year. The cost of sales reduced by approximately 31.0% to approximately HK\$17,778,000 (six months ended 30 September 2008: approximately HK\$25,769,000). The Group recorded a gross loss of approximately HK\$2,433,000 (six months ended 30 September 2008: gross loss of approximately HK\$1,894,000). The gross loss was again due to the increase in fixed production cost per unit as a result of decrease in sales and the allowance for inventories of approximately HK\$821,000. The Group's total operating expenses reduced to approximately HK\$9,049,000 as compared to the same period last year of approximately HK\$9,151,000. No finance cost was recorded for the six months ended 30 September 2009 (six months ended 30 September 2008: HK\$475,000).

APPENDIX VI ADDITIONAL FINANCIAL INFORMATION, MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP AND THE ENLARGED GROUP

Loss attributable to shareholders increased approximately 3.6% to approximately HK\$15,967,000 (six months ended 30 September 2008: approximately HK\$15,405,000). The loss was mainly due to decrease in sales and the impairment of approximately HK\$5,338,000 made on recognising the decrease in recoverable amount of the manufacturing assets of the Group (six months ended 30 September 2008: Nil). Loss per share for the period was approximately HK cents 19.7 (six months ended 30 September 2008: approximately HK cents 166).

Business Review

The bleaching and dyeing business continued to be the principal business of the Group and contributed to approximately 97.8% of the Group's total turnover during the period under review, whereas the knitting business accounted for approximately 1.4% and the new segment of property investment accounted for the remaining approximately 0.8% of the total turnover of the Group.

Turnover for the bleaching and dyeing business reduced by approximately 36.9% to approximately HK\$15,000,000 (six months ended 30 September 2008: approximately HK\$23,789,000). This segment suffered a loss of approximately HK\$3,417,000 (six months ended 30 September 2008: loss of approximately HK\$9,379,000). The loss from this segment was again due to the increase in fixed production cost per unit as a result of decrease in sales.

The knitting business contributed approximately HK\$223,000 to the Group's total turnover for the period under review (six months ended 30 September 2008: approximately HK\$86,000). Taking into account the portion of inter-segment sales, the turnover derived from this business dropped by 54.1% to approximately HK\$7,491,000 (six months ended 30 September 2008: approximately HK\$16,328,000). Loss from this segment increased to approximately HK\$7,109,000 as compared to approximately HK\$910,000 for the same period in last year. The increase in loss was due to the decrease of inter-segment sales, as well as the impairment loss recognised in respect of manufacturing assets of approximately HK\$5,338,000 during the period under review.

During the period, the Group purchased two properties located at Ground Floor and Cockloft Floor, No. 13 Matheson Street, Hong Kong ("Matheson Street Property") and Ground Floor, No. 148 Johnston Road, Hong Kong ("Johnston Road Property") for considerations of HK\$53,688,000 and HK\$38,000,000 respectively. Matheson Street Property and Johnston Road Property currently receive monthly rental at HK\$170,000 and HK\$105,000 respectively. The acquisition of the two properties enables the Group to extend its business activities to property investments and increase its earning from rental income generated. Please refer to the section "Material Acquisitions and Disposals" below for details of these two acquisitions. During the period, the two newly acquired properties contributed to approximately HK\$122,000 to the Group's total turnover.

Geographical analysis

During the period, the Group's turnover was mainly derived from sales made to customers in Hong Kong with manufacturing operations located in the PRC. The Group also recorded small amount of rental income derived from properties located in Hong Kong.

APPENDIX VI ADDITIONAL FINANCIAL INFORMATION, MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP AND THE ENLARGED GROUP

Development on the Huzhou Project

As at the date of this report, 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, the PRC (the "Huzhou Project"). The land use right certificate of the remaining portion of land earmarked for dyeing and bleaching operation has now been granted and issued to the Group.

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 now suggested that the land for knitting, bleaching and dyeing operations of the Huzhou Project be sold back to the local government at a profit to the Group. Negotiation is being conducted.

Prospects

The Board anticipates that the businesses of the Group will feel the impact of a declining market. Facing with present worldwide adverse financial condition, the Board decided to cease its knitting, bleaching and dyeing manufacturing operations by end of November 2009 in order to prevent future loss in earnings. If the adverse condition prevails, the Board may look for other more profitable businesses. As regard to the Huzhou Project, the Board together with the Huzhou Government is looking at other options which will be of benefit to the Group.

Liquidity and Financial Resources

During the six months ended 30 September 2009, the Group financed its operations mainly by internally generated resources. Shareholders' funds of the Group as at 30 September 2009 was approximately HK\$340,613,000 (31 March 2009: approximately HK\$356,580,000). As the Group had no bank borrowings as at 30 September 2009, no gearing ratio of the Group was presented (31 March 2009: Nil).

The Group continued to sustain a liquidity position. As at 30 September 2009, the Group had net current assets of approximately HK\$105,592,000 (31 March 2009: approximately HK\$208,622,000) and cash and cash equivalents of approximately HK\$51,148,000 (31 March 2009: approximately HK\$154,870,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and Renminbi. As at 30 September 2009, the Group's current ratio was approximately 6.3 (31 March 2009: approximately 7.6), which was calculated on the basis of current assets of approximately HK\$125,559,000 (31 March 2009: approximately HK\$240,161,000) to current liabilities of

APPENDIX VI ADDITIONAL FINANCIAL INFORMATION, MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP AND THE ENLARGED GROUP

approximately HK\$19,967,000 (31 March 2009: approximately HK\$31,539,000). The decrease in the current ratio was primarily due to the decrease in current assets by approximately HK\$114,602,000. During the period under review, the Group serviced its debts mainly through internally generated resources.

The Board believes that the Group has sufficient financial resources for its operations. The Board will remain cautious in the Group's liquidity management.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Most of the Group's revenues and payments are in Hong Kong dollars and Renminbi. During the period under review, the Group had no significant exposure to fluctuations in exchange rates and thus, no financial instrument for hedging purposes was employed.

Capital Structure

On 25 August 2009, the Company announced its proposals:—

- (i) To undertake a capital reorganisation of the Company (the "Capital Reorganisation") involving:—
 - (a) the reduction of the issued share capital of the Company by cancelling the paid up capital to the extent of HK\$0.009 on each of the issued share such that the nominal value of all the issued shares be reduced from HK\$0.01 each to HK\$0.001 each (the "Issued Capital Reduction");
 - (b) the consolidation of every ten (10) issued shares of HK\$0.001 each in the issued share capital of the Company into one (1) share of HK\$0.01 each (the "Adjusted Share");
 - (c) the entire amount standing to the credit of the share premium account of the Company be reduced to zero (the "Share Premium Reduction"); and
 - (d) the transfer of the credit amount arising from the Issued Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company and the application of the appropriate amounts therein to set off against the total accumulated losses of the Company.
- (ii) Upon the Capital Reorganisation became effective, the Company would raise approximately HK\$109 million, net of expenses, by way of rights issue of 293,699,560 rights shares (the "Rights Shares") at the subscription price of HK\$0.38 per rights share on the basis of four rights shares for every Adjusted Share held (the "Rights Issue").

Details of the Capital Reorganisation and the Rights Issue were set out in the Company's circular dated 11 September 2009. At the special general meeting of the Company held on 13 October 2009,

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special resolution and ordinary resolution approving the Capital Reorganisation and the Rights Issue were passed by the shareholders respectively. The Rights Shares were allotted by the Company on 3 November 2009. Save as disclosed above, the Group had no debt securities or other capital instruments as at 30 September 2009 and up to the date of this report.

Material Acquisitions and Disposals

On 3 July 2009, the Company announced to acquire the entire issued share capital of Chancemore Limited (“Chancemore”) and Clever Wise Holdings Limited (“Clever Wise”). The acquisitions enabled the Group to acquire the Matheson Street Property and the Johnston Road Property. The acquisition of Chancemore and Clever Wise constituted a major transaction for the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The acquisitions were approved by the shareholders of the Company at a special general meeting held on 12 August 2009.

Details of this major transaction were set out in the Company’s circular dated 24 July 2009. Chancemore and Clever Wise became wholly owned subsidiaries of the Group on 11 September 2009, and the Group simultaneously completed the purchase of the Matheson Street Property and Johnston Road Property within the month of September 2009.

As announced on 22 October 2009, the Group acquired on the Stock Exchange 50,000 shares of The Hongkong and Shanghai Banking Corporation Limited at a total consideration of HK\$4,462,500 (exclusive of transaction cost). Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries or associates during the six months ended 30 September 2009.

Charges on Group Assets

Except for the pledged deposit of HK\$10,000,000 as shown in the condensed consolidated statement of financial position at 30 September 2009, the Group did not have any other charges on assets as at 30 September 2009.

Capital Expenditure and Capital Commitments

During the six months ended 30 September 2009, the Group spent approximately HK\$1,030,000 on acquisition of property, plant and equipment (six months ended 30 September 2008: approximately HK\$20,354,000). As at 30 September 2009, the Group had capital commitments in respect of capital expenditure contracted for but not provided of approximately HK\$962,000 (31 March 2009: approximately HK\$1,153,000).

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 September 2009 (31 March 2009: Nil).

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Significant Investment

Apart from the Huzhou Project, the Matheson Street Property and the Johnston Road Property, the Group did not have any significant investment held as at 30 September 2009.

Future Plan for Material Investments

The Board constantly looks for investment opportunities. Recently, the Board has been exploring the possibility of acquiring the garment sourcing and export business from Easyknit International Holdings Limited, which is a substantial shareholder of the Company. If proceeded with, this acquisition is likely to constitute a very substantial acquisition and a connected transaction for the Company as defined under the Listing Rules. The expected source of funding for this acquisition will come from internal source of the Group.

Employment and Remuneration Policy

As at 30 September 2009, the Group employed approximately 130 full time management, technical, administrative staff and workers in Hong Kong and the PRC. Staff cost (including Directors' emoluments) amounted to approximately HK\$4,471,000 for the period under review (six months ended 30 September 2008: approximately HK\$4,776,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has adopted the Mandatory Provident Fund Scheme for the Hong Kong employees and has made contributions to the stated-sponsored pension scheme operated by the PRC government for the PRC employees. The Group has a share option scheme to motivate valued employees.

For the financial year ended 31 March 2009

Financial results

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 cost of sales and services reduced by approximately 6.3% to approximately HK\$61,581,000 (2008: approximately HK\$65,721,000). 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. Loss per share was approximately HK\$0.22 (2008: loss per share of approximately HK\$0.32).

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The Group's total operating expenses reduced to approximately HK\$18,825,000 (2008: approximately HK\$26,149,000), the reduction of approximately 28% was mainly due to the decrease in legal and professional fees during the year under review as a result of the termination of the negotiation of the proposed merger of the Company and Wits Basin Precious Minerals Inc., a company incorporated in the United States of America, in last year. Finance costs was increased approximately 77.2% to approximately HK\$475,000 (2008: approximately HK\$268,000) principally by reason of the imputed interest on the 1% HK\$37,650,000 convertible note due in March 2009, details of which are shown in section "Capital Structure" below.

Business review

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

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.

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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, the PRC (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 of the Company 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.

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Liquidity and financial resources

During the year ended 31 March 2009, the Group financed its operations mainly by internally generated resources, and the net proceeds of approximately HK\$100 million raised from the Rights Issue, details of the Rights Issue are shown in section “Capital Structure” below. As at 31 March 2009 and 31 March 2008, the Group had no outstanding bank borrowings. Shareholders’ funds of the Group as at 31 March 2009 was approximately HK\$356,580,000 (31 March 2008: approximately HK\$266,965,000). The Group’s gearing ratio was calculated on the basis of the total borrowings and the liability component of convertible note of approximately HK\$33,750,000 at 31 March 2008 to the shareholders’ fund. As the Group had no bank borrowings and convertible note as at 31 March 2009, no gearing ratio of the Group was presented (31 March 2008: 0.126).

The Group continued to sustain a liquidity position. As at 31 March 2009, the Group had net current assets of approximately HK\$208,622,000 (31 March 2008: approximately HK\$105,742,000) and cash and cash equivalents of approximately HK\$154,870,000 (31 March 2008: approximately HK\$139,753,000). The Group’s cash and cash equivalents were mainly denominated in Hong Kong dollars and Renminbi. As at 31 March 2009, the Group’s current ratio was approximately 7.6 (31 March 2008: approximately 2.6), which was calculated on the basis of current assets of approximately HK\$240,161,000 (31 March 2008: approximately HK\$172,126,000) to current liabilities of approximately HK\$31,539,000 (31 March 2008: approximately HK\$66,384,000). During the year under review, the Group serviced its debts mainly through internally generated resources.

The Directors believe that the Group has sufficient financial resources for its operations. The Directors will remain cautious in the Group’s liquidity management.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group’s revenues and payments are in Hong Kong dollars and Renminbi. During the year under review, the Group had no significant exposure to fluctuations in exchange rates and thus, no financial instrument for hedging purposes was employed. The Directors considered the risk of exposure to currency fluctuations to be minimal.

Capital Structure

As announced on 3 and 12 March 2008, the Company issued a convertible note on 12 March 2008 with a principal amount of HK\$37,650,000 to Mr. Chen Tien Tui at the initial conversion price of HK\$0.048 per share. Interest rate was at 1% per annum payable semi-annually in arrears. Maturity date was one year after the issuance. During the period between April and June 2008, the whole of the principal amount of the convertible note of HK\$37,650,000 had been converted at the initial conversion price. As a result of the conversions, a total of 784,375,000 shares of the Company were allotted and duly issued.

At the special general meeting of the Company held on 22 September 2008, a special resolution approving the capital reorganisation (as detailed below) was passed and the capital reorganisation became effective on 23 September 2008.

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- (a) the reduction of the nominal value of all issued shares of the Company from HK\$0.01 each to HK\$0.0001 each by cancelling the paid up capital to the extent of HK\$0.0099 on each issued share (the “Issued Capital Reduction”);
- (b) the 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 (the “Authorised Capital Reduction”);
- (c) the consolidation of every one hundred (100) issued and unissued shares of HK\$0.0001 each in the issued and unissued share capital of the Company (the “Share Consolidation”) into one (1) share of HK\$0.01 each (“Consolidated Share”);
- (d) the increase of the authorised share capital of the Company 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 (the “Authorised Capital Increase”); and
- (e) the transfer of the credit amount arising from the Issued Capital Reduction to the contributed surplus account of the Company and the application of the sum of HK\$66,082,401 in the contributed surplus account of the Company to set off against the accumulated losses of the Company, which amounted to HK\$131,747,676.06 as at 31 March 2008.

Further details of the above capital reorganisation are set out in the Company’s circular dated 29 August 2008. On 5 November 2008, the Company entered into an underwriting agreement in relation to the rights issue of 667,499,000 rights shares at the subscription price of HK\$0.15 per rights share on the basis of ten rights shares for every existing share held (the “Rights Issue”). The said 667,499,000 rights shares were allotted by the Company on 19 January 2009.

Details of the Rights Issue are set out in the Company’s prospectus dated 29 December 2008. Save as disclosed above, the Group had no debt securities or other capital instruments as at 31 March 2009 and up to the date of this report.

Material acquisitions and disposals

The Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 March 2009.

Charges on Group assets

The Group did not have any charges on assets as at 31 March 2009.

Capital expenditure and capital commitments

During the year ended 31 March 2009, the Group spent approximately HK\$29,690,000 on acquisition of property, plant and equipment (2008: approximately HK\$35,182,000).

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As at 31 March 2009, the Group had capital commitments in respect of capital expenditure contracted but not provided for of approximately HK\$1,153,000 (31 March 2008: approximately HK\$45,654,000) and had no capital expenditure authorised but not contracted for (31 March 2008: approximately HK\$384,636,000).

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 March 2009 (31 March 2008: Nil).

Significant investment

Apart from Huzhou Project, details of which are shown in section “Business Review” above, the Group did not have any significant investment held as at 31 March 2009.

Future plan for material investments

The Board will extend the Group’s business activities to property investment in the coming year. The initial source of funding for this segment of business will come from the internal resources of the Group but may go into fund raising if necessary. The Board will continue actively to look for/negotiate other potential investment opportunity in Hong Kong in order to build up its property portfolio in addition to the land the Group is already holding in Mainland China. The Group is already in advanced discussions for the acquisition by it of significant property investments that may or may not result in agreements in the very near future. If agreements for the acquisition of significant property investments are entered into the Group will incur material funding obligations that may be satisfied from cash resources, borrowings, equity issues or a combination of two or more of the foregoing. Any agreements will be entered into, and any fund raising will be carried out, in strict compliance with the Listing Rules.

Employment and remuneration policy

As at 31 March 2009, the Group employed approximately 190 full time management, technical, administrative staff and workers in Hong Kong and the PRC. Staff cost (including Directors’ emoluments) amounted to approximately HK\$10,102,000 for the year under review (2008: approximately HK\$10,956,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has adopted the Mandatory Provident Fund Scheme for the Hong Kong employees and has made contributions to the stated-sponsored pension scheme operated by the PRC government for the PRC employees. The Group has a share option scheme to motivate valued employees.

For the financial year ended 31 March 2008

Financial results

For the year ended 31 March 2008, the Group recorded a turnover of approximately HK\$74,923,000, a decrease of approximately 1.4% over last year (2007: approximately

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HK\$75,964,000). Gross profit increased to approximately HK\$9,202,000 (2007: approximately HK\$1,247,000). Gross profit margin increased approximately 10.6%. Loss attributable to shareholders increased approximately 55.1% to approximately HK\$17,811,000 (2007: approximately HK\$11,481,000).

Loss per share was approximately HK cent 0.4 (2007: approximately HK cent 0.3). The loss for the year under review was primarily attributable to the payment of legal and professional fees of approximately HK\$9,135,000 in relation to the possible merger with Wits Basin Precious Minerals Inc., details of which are shown in section “Material Acquisitions and Disposals” below.

The cost of sales and services reduced approximately 12% to approximately HK\$65,721,000 (2007: approximately HK\$74,717,000), primarily due to reduction in quantity of sales, the success in controlling the cost of production, effort in streamlining the production process and improvement in the effectiveness of managing the Group’s resources.

Other income decreased by approximately 34.7% to approximately HK\$1,742,000 (2007: approximately HK\$2,667,000), mainly due to the decrease in interest income during the year.

The Group’s total operating expenses rose by approximately 62.3% to approximately HK\$26,149,000 (2007: approximately HK\$16,116,000), largely due to the increase in the legal and professional fees as a result of the payment in relation to the possible merger with Wits Basin Precious Minerals Inc. as mentioned above.

Finance costs increased approximately 75.2% to approximately HK\$268,000 (2007: approximately HK\$153,000), principally by reason of the imputed interest on the 1% HK\$37,650,000 convertible note due in March 2009, details of which are shown in section “Capital Structure” below.

Business review

During the year ended 31 March 2008, the Group was principally engaged in the businesses of bleaching and dyeing, and knitting.

Bleaching and dyeing

The bleaching and dyeing business continued to be the major business of the Group and contributed to approximately 99.96% of the Group’s total turnover for the year ended 31 March 2008 (2007: 100.0%). Turnover of this segment decreased slightly approximately 1.4% to approximately HK\$74,891,000 (2007: approximately HK\$75,964,000). This segment results recorded a loss of approximately HK\$2,323,000 (2007: approximately HK\$2,400,000). The Group’s bleaching and dyeing factory located in Dongguan, the People’s Republic of China (the “PRC”) currently has a daily production capacity of about 30,000 pounds of fabrics.

Knitting

External sales of approximately HK\$32,000 were recorded for the knitting business during the year under review (2007: nil). Taking into account the portion of inter-segment, the turnover derived

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from this segment rose by approximately 2.4% to approximately HK\$8,487,000 (2007: approximately HK\$8,292,000). The segment loss decreased from approximately HK\$2,334,000 to approximately HK\$1,362,000, mainly due to the more effective and efficient management of the Group's resources through controlling the cost of production and streamlining the production process. The knitting mill in Heyuan, the PRC has a daily production capacity of about 20,000 pounds of fabrics.

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

The progress of the Group's project in Huzhou City, Zhejiang Province, the PRC (the "Huzhou Project") had made little progress because the Huzhou Government, due mainly to the PRC's ongoing macroeconomic adjustment and lack of funds to resite the farmers, was unable to deliver the possession of the remaining two parcels of land with an aggregate area of approximately 381 mu for our proposed bleaching and dyeing, and knitting capabilities, though during the year a further land use right certificate for a further 115 mu of land, which was marked for the use of the knitting operation, was granted. Negotiation is being carried out with the Huzhou Government for a grant of the land use right certificate of land marked for the bleaching and dyeing operation, as well as the actual delivery of the aggregate area of 381mu of land and/or a revision of the contractual terms to the benefit of the Group as the delay was entirely due to the Huzhou Government.

Construction work on the approximately 251 mu land granted and delivered for the garment manufacturing operation is continuing as scheduled and is expected to be finished by November to enable commercial use.

Prospects

The Directors of the Company anticipate that the businesses of the Group will remain stable due to its stable customer orders. Facing with keen competition in the market, the Group will focus in implementing an effective control in production cost and improving its product quality in order to sharpening its competitiveness with a view to bring up a better return to its shareholders.

As regard to the Huzhou Project, the Directors will continue to keep track of the transfer of the remaining two parcels of land to the Group. When the land is transferred to the Group, construction works will be started as quickly as possible.

The Directors believe that the Huzhou Project will help the Group increase its production capacity, enrich its product portfolio and diversify its income sources.

Liquidity and financial resources

During the year ended 31 March 2008, the Group financed its operations mainly by internally generated resources, and the net proceeds of approximately HK\$100 million and HK\$37 million raised from the Rights Issue and the Convertible Note respectively, details of the Rights Issue and the Convertible Note are shown in section "Capital Structure" below.

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The raised fund is for financing the Huzhou Project and general working capital. As at 31 March 2008, the Group had no outstanding bank borrowings (31 March 2007: approximately HK\$6,038,000). Shareholders' funds of the Group as at 31 March 2008 was approximately HK\$266,965,000 (31 March 2007: approximately HK\$168,634,000). The Group's gearing ratio, calculated based on the total borrowings and the liability component of convertible note of approximately HK\$33,750,000 at 31 March 2008 (31 March 2007: nil) to the shareholders' funds, was 0.126 (31 March 2007: approximately 0.036).

The Group continued to sustain a liquidity position. As at 31 March 2008, the Group had net current assets of approximately HK\$105,742,000 (31 March 2007: approximately HK\$54,031,000) and cash and cash equivalents of approximately HK\$139,753,000 (31 March 2007: approximately HK\$29,392,000). The Group's cash and cash equivalents were mainly denominated in Hong Kong dollars and Renminbi. As at 31 March 2008, the Group's current ratio was approximately 2.6 (31 March 2007: approximately 2.5), which was calculated on the basis of current assets of approximately HK\$172,126,000 (31 March 2007: approximately HK\$90,276,000) to current liabilities of approximately HK\$66,384,000 (31 March 2007: approximately HK\$36,245,000). During the year under review, the Group serviced its debts mainly through internally generated resources.

The Directors believe that the Group has sufficient financial resources for its operations. The Directors will remain cautious in the Group's liquidity management.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's revenues and payments are in Hong Kong dollars and Renminbi. During the year under review, the Group had no significant exposure to fluctuations in exchange rates and thus, no financial instrument for hedging purposes was employed. The Directors considered the risk of exposure to currency fluctuations to be minimal.

Capital structure

On 21 January 2008, the Company allotted 1,963,537,620 rights shares of HK\$0.01 each at a subscription price of HK\$0.052 per rights share on the basis of one rights share for every two shares held (the "Rights Issue"). Details of the Rights Issue are set out in the Company's prospectus dated 31 December 2007. On 28 February 2008, the Company entered into a subscription agreement (the "Subscription Agreement") with Mr. Chen Tien Tui (the "Subscriber") pursuant to which the Subscriber had agreed to subscribe for the convertible note with a principal amount of HK\$37,650,000 (the "Convertible Note") at the initial conversion price of HK\$0.048 per conversion share (the "Initial Conversion Price"). The maturity date of the Convertible Note is one year after its issuance. Interest at 1% per annum will be paid semi-annually in arrears. Completion of the Subscription Agreement and issuance of the Convertible Note had taken place on 12 March 2008. Details of the Convertible Note are set out in the Company's announcements dated 3 and 12 March 2008.

During the period between April and June 2008, the Subscriber had converted the whole of the principal amount of the Convertible Note of HK\$37,650,000 at the Initial Conversion Price. As a result of the conversion, a total of 784,375,000 ordinary shares of HK\$0.01 each in the share capital of the Company had been allotted and duly issued.

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The Group had no debt securities or other capital instruments as at 31 March 2008, except the Convertible Note mentioned above and up to the date of this report.

Material acquisition and disposals

In November 2006, the Group was approached by Wits Basin Precious Minerals Inc., (“Wits Basin”), a company incorporated in Minnesota, the United States of America (“USA”) whose principal business is the exploration and development of minerals in Mexico, Colorado and South Africa, for preliminary discussion in respect of a possible merger between the Group and Wits Basin. After several meetings with the key management of Wits Basin, the Directors were of the view that the possible merger is in the best interest of the Company and its shareholders as a whole as it would allow the Group to diversify its business interests into mining, a sector in which the Group foresee attractive growth prospects, and reduce its reliance on its current business which operate in a highly-competitive environment with no significant barriers to entry.

On 2 February 2007, the Company and its wholly-owned subsidiary Race Merger, Inc. (“Race Merger”) entered into a conditional merger agreement (the “Merger Agreement”) with Wits Basin in respect of possible merger between the Group and Wits Basin (the “Possible Merger”). It was intended that the Possible Merger might involve an issue of approximately 3,345,286,315 shares of the Company (in form of American Depositary Shares) to the shareholders of Wits Basin in consideration of the transfer of all their shares in Wits Basin to the Group. Under the Merger Agreement, a break up fee of US\$30,000,000 is required to be paid by the defaulting party to the non-defaulting party if the former is in breach of any representation, warranty, covenant set forth in the Merger Agreement which results in the latter to terminate the Merger Agreement. In addition, the defaulting party is required to reimburse the non-defaulting party 100% of its reasonable legal expenses up to US\$500,000 actually incurred by it in connection with the Possible Merger.

On 15 August 2007, Wits Basin filed a declaratory judgement action in the District Court of the State of Minnesota against the Company and Race Merger pursuant to which Wits Basin seeks a declaration by the court that Wits Basin is entitled to terminate the Merger Agreement on the alleged grounds that there has been a material adverse change in the financial condition of the Group and the due diligence on the Group was not satisfactory. Wits Basin’s claim was amended on 30 August 2007 to particularise their claim for alleged damages for the Group on the ground that the Group did not grant Wits Basin’s request for consent to Wits Basin’s proposed commercial transaction. The Group did not grant Wits Basin the said request for consent because Wits Basin failed to supply the Group with the necessary relevant information in relation to the proposed commercial transaction which the Group’s United States lawyers has advised to be necessary before any granting of consent by the Group.

On 1 November 2007, the Group received a notice of termination of the Merger Agreement from Wits Basin’s lawyers based on the aforesaid grounds. Based on the legal advice received from the Group’s lawyers in the USA, the Directors are of the view that Wits Basin’s alleged grounds of

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termination of the Merger Agreement are without merit. The Directors has instructed lawyers in the USA to advise them on the Wits Basin's claims and to claim from Wits Basin the break up fee of US\$30,000,000, and also that all obligations under the Merger Agreement on the part of the Company and Race Merger have been discharged.

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

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

Details of the Possible Merger and the Settlement and Release were set out in the Company's announcements dated 30 November 2006, 1 February 2007, 6 February 2007, 30 March 2007, 17 July 2007, 20 August 2007, 6 November 2007 and 19 December 2007.

The Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 March 2008.

Charges on Group assets

The Group did not have any charges on assets as at 31 March 2008.

APPENDIX VI ADDITIONAL FINANCIAL INFORMATION, MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP AND THE ENLARGED GROUP

Capital expenditure and capital commitments

During the year ended 31 March 2008, the Group spent approximately HK\$35,182,000 on acquisition of property, plant and equipment (2007: approximately HK\$45,246,000).

As at 31 March 2008, the Group had capital commitments in respect of capital expenditure contracted but not provided for of approximately HK\$45,654,000 (31 March 2007: approximately HK\$80,104,000); and capital expenditure authorized but not contracted for of approximately HK\$384,636,000 (31 March 2007: approximately HK\$347,771,000).

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 March 2008 (31 March 2007: Nil).

Significant Investments

Apart from Huzhou Project, details of which are shown in section “Business Review” above, the Group did not have any significant investment plans or any significant investment held as at 31 March 2008.

Employment and remuneration policy

As at 31 March 2008, the Group employed approximately 185 full time management, technical, administrative staff and workers in Hong Kong and the PRC. Staff cost (including Directors’ emoluments) amounted to approximately HK\$10,956,000 for the year under review (2007: approximately HK\$10,851,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has adopted the Mandatory Provident Fund Scheme for the Hong Kong employees and has made contributions to the stated-sponsored pension scheme operated by the PRC

For the year ended 31 March 2007

Financial results

For the year ended 31 March 2007, the Group recorded a turnover of approximately HK\$75,964,000, an increase of approximately 30.9% over last year (2006: approximately HK\$58,039,000). Gross profit fell approximately 72.1% to approximately HK\$1,247,000 (2006: approximately HK\$4,466,000). Gross profit margin decreased from approximately 7.7% to approximately 1.6%. Loss attributable to shareholders dropped approximately 65.1% to approximately HK\$11,481,000 (2006: approximately HK\$32,857,000). Loss per share was approximately HK cent 0.3 (2006: approximately HK cents 1.5).

The remarkable reduction in loss for the year under review was primarily attributable to the growth in turnover, quantum leap in other income, write back of allowance for doubtful debts and

APPENDIX VI ADDITIONAL FINANCIAL INFORMATION, MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP AND THE ENLARGED GROUP

substantial reduction in finance costs as well as no further impairment loss in respect of goodwill was recognised during the year, whereas such loss of approximately HK\$21,122,000 was recognised for the year ended 31 March 2006. The improvement was partly offset by the increase in total operating expenses and the taxation charge of approximately HK\$1,572,000 for the year under review.

The cost of sales and services went up by approximately 39.5% to approximately HK\$74,717,000 (2006: approximately HK\$53,573,000), primarily due to the growth in sales and increase in material costs.

Other income surged by approximately 85.1% to reach approximately HK\$2,667,000 (2006: approximately HK\$1,441,000), mainly due to the increase in interest income during the year.

The Group's total operating expenses rose by approximately 29.1% to approximately HK\$16,116,000 (2006: approximately HK\$12,485,000), largely due to the increase in Directors' remuneration by HK\$2,000,000 and other staff cost by approximately HK\$1,665,000. The executive Directors of the Company did not receive any remuneration until February 2006.

Finance costs dropped approximately 88.0% to approximately HK\$153,000 (2006: approximately HK\$1,275,000), principally by reason of the lower average bank loans outstanding during the year under review.

During the year ended 31 March 2007, the Group was principally engaged in the businesses of bleaching and dyeing, and knitting.

Bleaching and dyeing

The bleaching and dyeing business continued to be the major business of the Group and contributed to 100.0% of the Group's total turnover for the year ended 31 March 2007, an approximately 0.2% increase as compared to prior year (2006: approximately 99.8%). Turnover of this segment increased significantly by approximately 31.1% to approximately HK\$75,964,000 (2006: approximately HK\$57,936,000). This segment results recorded a loss of approximately HK\$2,400,000 (2006: approximately HK\$25,366,000). The substantial decrease in loss was largely due to the growth in turnover and write back of allowance for doubtful debts previously written off as well as no further impairment loss in respect of goodwill was recognised for the year ended 31 March 2007, whereas, a significant one-off impairment loss in respect of goodwill of approximately HK\$21,122,000 was recognised for the year ended 31 March 2006. The Group's bleaching and dyeing factory located in Dongguan, the People's Republic of China (the "PRC") currently has a daily production capacity of about 30,000 pounds.

Knitting

No external sales were recorded for the knitting business during the year under review (2006: approximately 0.2%). Taking into account the portion of inter-segment, the turnover derived from this segment rose by approximately 48.9% to approximately HK\$8,292,000 (2006: approximately

APPENDIX VI ADDITIONAL FINANCIAL INFORMATION, MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP AND THE ENLARGED GROUP

HK\$5,568,000). The segment loss increased from approximately HK\$1,434,000 to approximately HK\$2,334,000, mainly due to the decrease in gross profit margin from approximately 12.1% to approximately 8.1%. The knitting mill in Heyuan, the PRC has a daily production capacity of about 20,000 pounds.

Geographical analysis

Geographically, all the Group's customers were located in the PRC.

Huzhou Project

The progress of the Group's project in Huzhou City, Zhejiang Province, the PRC (the "Huzhou Project") was further delayed, mainly due to the PRC's ongoing macroeconomic adjustment measures which led to tightened land supply.

The Group obtained the land use right certificate for approximately 67 mu of land in December 2006. This parcel of land, together with approximately 184 mu of land transferred to the Group in August 2005, is designated for the development of garment manufacturing capabilities. The construction works have been carried out and are scheduled to be completed by September this year. The Directors expected that the transfer to the Group of the remaining two parcels of land with an aggregate area of approximately 381 mu for bleaching and dyeing, and knitting capabilities and the waste water treatment plant will be further delayed.

Prospects

The Directors of the Company anticipate that the businesses of the Group will remain stable due to its stable customer orders. Facing with keen competition in the market, the Group will focus in implementing an effective control in production cost and improving its product quality in order to strengthen its competitiveness and bring a positive return to its shareholders.

As regard to the Huzhou Project, the Directors will continue to keep track of the transfer of the remaining two parcels of land to the Group. When the land is transferred to the Group, construction works will be started as quickly as possible.

The Directors believe that the Huzhou Project will help the Group increase its production capacity, enrich its product portfolio and diversify its income sources.

Liquidity and Financial resources

During the year ended 31 March 2007, the Group financed its operations mainly by internally generated resources. As at 31 March 2007, the Group's total bank borrowings amounted to approximately HK\$6,038,000 (31 March 2006: approximately HK\$984,000), which were all short-term borrowings. All the loans are unsecured, denominated in US dollars and charged at prevailing market interest rates. The Group's borrowings are mostly event driven, with little

APPENDIX VI ADDITIONAL FINANCIAL INFORMATION, MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP AND THE ENLARGED GROUP

seasonality. Shareholders' fund of the Group as at 31 March 2007 was approximately HK\$168,634,000 (31 March 2006: approximately HK\$175,028,000). The Group's gearing ratio, calculated based on the total borrowings to the shareholders' fund, was approximately 0.036 (31 March 2006: approximately 0.006).

The Group continued to sustain a liquidity position. As at 31 March 2007, the Group had net current assets of approximately HK\$54,031,000 (31 March 2006: approximately HK\$125,990,000) and cash and cash equivalents of approximately HK\$29,392,000 (31 March 2006: approximately HK\$110,018,000). The Group's cash and cash equivalents were mainly denominated in Hong Kong dollars and Renminbi. As at 31 March 2007, the Group's current ratio was approximately 2.5 (31 March 2006: approximately 13.0), which was calculated on the basis of current assets of approximately HK\$90,276,000 (31 March 2006: approximately HK\$136,503,000) to current liabilities of approximately HK\$36,245,000 (31 March 2006: approximately HK\$10,513,000). The drop in current ratio was primarily resulted from the substantial increase in total payables by approximately HK\$20,678,000 and the decrease in current assets due to no additional fund raised by issue of the Company's shares, whereas there was rights issue of shares completed in September 2005 with net proceeds of approximately HK\$140,300,000. During the year under review, the Group serviced its debts mainly through internally generated resources.

The Directors believe that the Group has sufficient financial resources for its operations. We will remain cautious in the Group's liquidity management.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's revenues and payments are in Hong Kong dollars and Renminbi. During the year under review, the Group had no significant exposure to fluctuations in exchange rates and thus, no financial instrument for hedging purposes was employed.

Capital Structure

As announced by the Company on 2 May 2006, the board of Directors proposed, amongst others, (i) the increase in the authorised share capital of the Company from HK\$6,500,000 to HK\$200,000,000 by the creation of an additional 19,350,000,000 unissued shares of HK\$0.01 each (the "Increase in Authorised Share Capital"); and (ii) the issue of 3,534,367,716 bonus shares of HK\$0.01 each by way of capitalisation of an amount of approximately HK\$35,344,000 from the Company's share premium account on the basis of nine bonus shares for every share held (the "Bonus Issue").

Ordinary resolutions approving the Increase in Authorised Share Capital and the Bonus Issue were passed at the special general meeting of the Company held on 19 June 2006, resulting in an authorised share capital of HK\$200,000,000 comprising 20,000,000,000 shares of HK\$0.01 each and an issued share capital of HK\$39,270,752.40 consisting of 3,927,075,240 shares of HK\$0.01 each with effect from 19 June 2006 and 27 June 2006 respectively. Details of the Increase in Authorised Share Capital and the Bonus Issue are set out in the Company's circular dated 19 May 2006.

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The Group had no debt securities or other capital instruments as at 31 March 2007 and up to the date of this report.

Material acquisitions and disposals

The Company and Wits Basin Precious Minerals Inc. (“Wits Basin”) have entered into a non-binding letter of intent dated 29 November 2006, and two non-binding heads of agreements dated 2 February 2007 and 30 March 2007, which may or may not lead to a possible merger (the “Possible Merger”). Details of the Possible Merger are set out in the Company’s announcements dated 30 November 2006, 1 February 2007 and 6 February 2007, and the joint announcement of Easyknit International Holdings Limited and the Company dated 30 March 2007. The Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 March 2007.

Charges on Group asset

The Group did not have any charges on assets as at 31 March 2007.

Capital expenditure and capital commitments

During the year ended 31 March 2007, the Group spent approximately HK\$45,246,000 on acquisition of property, plant and equipment (2006: approximately HK\$4,094,000).

As at 31 March 2007, the Group had capital commitments in respect of capital expenditure contracted but not provided for of approximately HK\$80,104,000 (31 March 2006: approximately HK\$26,807,000); and capital expenditure authorized but not contracted for of approximately HK\$347,771,000 (31 March 2006: approximately HK\$466,733,000).

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 March 2007 (31 March 2006: Nil).

Significant investment

As announced by the Company on 30 November 2006, the Company entered into a non-binding letter of intent on 29 November 2006 with SSC Mandarin Financial Services Limited which may or may not lead to a possible investment (the “Possible Investment”) in SSC-Sino Gold Consulting Co., Ltd. (“SSC Gold”). SSC Gold is a company incorporated in the PRC whose principal business is financial and investment services in gold industry. The Company had paid to an escrow agent a deposit of HK\$10,000,000, which would constitute part of the consideration for the Possible Investment if it proceeded. The parties have decided not to proceed with the Possible Investment and thus they have not entered into any binding contracts. The deposit has also been returned to the Company.

Apart from the Huzhou Project (as defined in “Business Review” above), the Group did not have any significant investment plans or any significant investment held as at 31 March 2007.

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Employment and remuneration policy

As at 31 March 2007, the Group employed approximately 280 full time management, technical, administrative staff and workers in Hong Kong and elsewhere in the PRC. Staff cost (including Directors' emoluments) amounted to approximately HK\$10,851,000 for the year under review (2006: approximately HK\$7,186,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has adopted the Mandatory Provident Fund Scheme for the Hong Kong employees and has made contributions to the stated-sponsored pension scheme operated by the PRC government for the PRC employees. The Group has a share option scheme to motivate valued employees.

3. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

According to the interim report of the Company for the six months ended 30 September 2009, faced with present worldwide adverse financial condition, the Board decided to cease its knitting, bleaching and dyeing manufacturing operations by end of November 2009 in order to prevent further losses. As a result, the Group will no longer generate revenue from these businesses in the future. The proposed Transaction will allow the Company to acquire an alternative business in garment trading, which is expected to provide a stable source of revenue and profit for the Group as supported by the operating history of the Garment Trading Business of the Target Companies.

Operating results of the Enlarged Group

According to the unaudited pro forma financial information of the Enlarged Group, assuming the Transaction had been completed on 1 April 2009, the turnover of the Enlarged Group would increase significantly from HK\$15,345,000 to HK\$235,001,000 for the six months ended 30 September 2009 and the gross profit would improve from a gross loss of HK\$2,433,000 to a gross profit of HK\$22,129,000 for the same period. The loss after tax of the Enlarged Group would decrease from HK\$15,967,000 to HK\$9,221,000 for the six months ended 30 September 2009.

Financial position of the Enlarged Group

According to the unaudited pro forma financial information of the Enlarged Group, assuming the Transaction had been completed on 30 September 2009, the net current assets of the Enlarged Group would decrease from HK\$105,592,000 to HK\$47,837,000 as at 30 September 2009. The current ratio (which is calculated as current assets divided by current liabilities of the Enlarged Group) would decrease from 6.3 to 1.6 as at 30 September 2009. The decrease in current ratio was mainly attributable to the decrease in cash and cash equivalents in connection with the Transaction.

The Transaction will be funded by proceeds raised through the Rights Issue. Such proceeds were, however, not recognised in the unaudited pro forma financial information of the Enlarged Group as at 30 September 2009 as it is a post-balance sheet event. As at the Latest Practicable Date, the cash and cash equivalents of the Group, based on unaudited management accounts, amounted to approximately HK\$164,388,000. The Group will not need to raise any additional fund for completing the Transaction and therefore, there is no impact to the gearing ratio (nil gearing ratio is presented for

APPENDIX VI ADDITIONAL FINANCIAL INFORMATION, MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP AND THE ENLARGED GROUP

the Group as the Group did not have any long-term borrowing as at 30 September 2009). The Directors believe that the Group will have sufficient financial resources and working capital for its operations upon completion of the Transaction and thereafter. The management will closely monitor the Group's liquidity management.

Prospects

After the cessation of the bleaching, dyeing and knitting business, the Company has continued with its property investment business and has been looking for suitable property investment opportunities. The Directors expect the investment properties to continue to provide stable rental income.

With regard to the Huzhou Project, the Directors will continue negotiation with the Zhili Town Government on the possibility of divesting the land previously used for knitting, bleaching and dyeing operations to the local government.

Looking forward, the Directors expect that with the recovery of global economy under way, demand for garments is expected to pick up. In comparison to the bleaching, dyeing and knitting businesses carried out by the Group in the past, the Garment Trading Business allows the Group to take advantage of the expected rise in demand without significant capital investment in production facilities. Therefore, the Directors believe that the acquisition of the Garment Trading Business will benefit the Group in terms of business diversification and improvement in stability of future income.

APPENDIX VII EXPLANATORY STATEMENT ON REPURCHASE MANDATE

This Appendix serves as an explanatory statement, as required by the Listing Rules, to provide all the information in relation to the Repurchase Mandate for the Shareholders' consideration.

1. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company comprised 367,124,450 Shares. On the basis that no Shares are issued or repurchased prior to the date of the SGM and subject to the passing of the relevant resolution approving the Repurchase Mandate, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 36,712,445 Shares, being 10% of the Shares in issue as at the date of the refreshment of the General Mandates.

Shareholders should note that the Repurchase Mandate only covers purchases made during the period ending on the earliest of the conclusion of the next annual general meeting, expiration of the period within which the next annual general meeting is required to be held under the Company's Bye laws or any applicable laws, and the date on which such authority is revoked or varied by Shareholders in general meeting.

2. REASONS FOR REPURCHASES

Although the Directors have no present intention of repurchasing Shares, they believe that it is in the best interests of the Company and the Shareholders to refresh the Repurchase Mandate which enables the Directors to repurchase Shares on the Stock Exchange and otherwise in accordance with the Listing Rules. Such repurchase may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

3. FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association, Bye-laws, the Listing Rules and the applicable laws of Bermuda. Under Bermuda law, any repurchases will be made out of funds of the Company legally permitted to be utilised in this connection, namely out of capital paid up on the Shares to be repurchased, out of funds of the Company which would otherwise be available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose; and in the case of premiums payable on repurchase, out of the funds of the Company which would otherwise be available for dividend or distribution or out of any credit amount standing to the share premium account of the Company.

There might be a material adverse impact on the working capital requirements or gearing levels of the Company, as compared with the position disclosed in the latest published audited accounts as at 31 March 2009, in the event that the Repurchase Mandate was to be exercised in full at any time during the proposed purchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels that in the opinion of the Directors are from time to time appropriate for the Company.

APPENDIX VII EXPLANATORY STATEMENT ON REPURCHASE MANDATE

4. DIRECTORS' UNDERTAKING

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the power of the Company to make repurchases pursuant to the Repurchase Mandate and in accordance with its Bye-laws, the Listing Rules and the applicable laws of Bermuda.

5. DIRECTORS, THEIR ASSOCIATES AND CONNECTED PERSONS

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, their associates (as defined in the Listing Rules) have any present intention to sell Shares to the Company or its subsidiaries under the Repurchase Mandate if such is approved by the Shareholders.

No connected persons (as defined in the Listing Rules) of the Company have notified the Company that they have a present intention to sell Shares to the Company or its subsidiaries, or have undertaken not to do so, in the event that the Repurchase Mandate is approved by the Shareholders.

6. EFFECT OF TAKEOVER CODE

As at the Latest Practicable Date, Landmark Profits Limited (“Landmark”) held 116,395,325 Shares, representing approximately 31.70% of the issued share capital of the Company. Landmark was a wholly-owned subsidiary of Easyknit International. Magical Profits Limited (“Magical”) was interested in approximately 36.74% of the issued share capital of Easyknit International. Magical was wholly-owned by Accumulate More Profits Limited (“Accumulate”) which in turn was wholly-owned by Hang Seng Bank Trustee International Limited (“Hang Seng Bank Trustee”) as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than her spouse). Hang Seng Bank Trustee was a wholly-owned subsidiary of Hang Seng Bank Limited (“Hang Seng Bank”). Hang Seng Bank was owned as to approximately 62.14% by The Hongkong and Shanghai Banking Corporation Limited (“HSBC”). HSBC was wholly-owned by HSBC Asia Holdings BV (“HSBC Asia BV”) which was a wholly-owned subsidiary of HSBC Asia Holdings (UK) (“HSBC Asia UK”). HSBC Asia UK was wholly-owned by HSBC Holdings BV (“HSBC BV”) which in turn was wholly-owned by HSBC Finance (Netherlands) (“HSBC Finance”). HSBC Finance was a wholly-owned subsidiary of HSBC Holdings plc (“HSBC Holdings”). Easyknit International, Magical, Accumulate, Hang Seng Bank Trustee, Ms. Lui Yuk Chu and her spouse Mr. Koon Wing Yee, Hang Seng Bank, HSBC, HSBC Asia BV, HSBC Asia UK, HSBC BV, HSBC Finance and HSBC Holdings were taken to have an interest under the SFO in the same block of 116,395,325 Shares held by Landmark.

In the event that the Directors exercise in full the power to repurchase Shares under the Repurchase Mandate, then (if the present shareholdings otherwise remained the same) the attributable shareholdings of each of Landmark, Easyknit International, Magical, Accumulate, Hang Seng Bank Trustee, Ms. Lui Yuk Chu, Mr. Koon Wing Yee, Hang Seng Bank, HSBC, HSBC Asia BV, HSBC Asia UK, HSBC BV, HSBC Finance and HSBC Holdings in the Company would be increased by more than 2% from approximately 31.70% to approximately 35.27% of the issued share capital of the Company immediately after the full exercise of the Repurchase Mandate. Such increase will be treated as an acquisition for the purpose of the Takeovers Code and the parties stated above may, together with any other parties acting in concert with them, become obliged to make a mandatory offer for all the Shares

APPENDIX VII EXPLANATORY STATEMENT ON REPURCHASE MANDATE

under Rule 26 of the Takeovers Code. The Directors have no present intention to exercise the Repurchase Mandate to such an extent as would result in takeover obligations. The Directors have no intention to purchase Shares to such an extent as would result the Shares being held by the public being reduced to less than 25%.

7. SHARE PRICES

The highest and lowest prices at which the Shares were traded on the Stock Exchange during each of previous 12 months preceding the Latest Practicable Date are set out as follows:

Month	Highest	Lowest
	<i>HK\$</i>	<i>HK\$</i>
<i>2009</i>		
January	0.980	0.570
February	0.670	0.570
March	0.600	0.540
April	0.640	0.570
May	0.740	0.520
June	0.760	0.560
July	0.610	0.540
August	0.590	0.440
September	0.460	0.420
October	0.650	0.405
November	0.460	0.325
December	0.385	0.290
<i>2010</i>		
January (up to and including the Latest Practicable Date)	0.410	0.305

* Share prices for the period from 1 January 2009 to 13 October 2009 are adjusted for the effects of (i) the Capital Reorganisation effective from 14 October 2009 and (ii) the Rights Issue which was approved by Shareholders at the special general meeting of Easyknit Enterprises held on 13 October 2009, and dealings in the Shares issued pursuant to the Rights Issue commenced on 9 November 2009.

8. SHARE REPURCHASE MANDATE MADE BY THE COMPANY

No purchases of Shares had been made by the Company during the six months preceding the Latest Practicable Date (whether on the Stock Exchange or otherwise).

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

Kwong Jimmy Cheung Tim	Flat D, 16th Floor, Tower 4 Hong Kong Gold Coast Tuen Mun New Territories Hong Kong
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Lui Yuk Chu	No. 7, Braga Circuit Kowloon Hong Kong
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Non-executive Directors

Tse Wing Chiu, Ricky	House D6, Flamingo Garden No. 7, Fei Wan Road, Fei Ngo Shan New Territories Hong Kong
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**Independent Non-executive
Directors**

Kan Ka Hon	Unit GB, No.11 La Serene Discovery Bay New Territories Hong Kong
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Lau Sin Ming
Flat D, 4th Floor
Wah Shing Building
19 Castle Peak Road
Kowloon
Hong Kong

Foo Tak Ching
Flat A,
11th Floor
Skyline Mansion
51 Conduit Road
Hong Kong

Executive Directors

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

Mr. Kwong, aged 67, is an executive Director, Chairman, Chief Executive Officer and authorised representative of the Company and a member and Chairman of the Executive Committee of the Board. He is also an executive director, President, Chief Executive Officer and authorised representative, and a member and Chairman of the Executive Committee of the board of directors of Easyknit International. Mr. Kwong graduated from the University of Hong Kong in 1965 and was admitted as a Barrister-at-Law in the United Kingdom in 1970 and in Hong Kong in 1973 respectively. He has over 30 years of experience in the legal field. He serves as director of various subsidiaries of the Company and Easyknit International. Mr. Kwong was appointed to the Board as an independent non-executive Director in April 2003, and was subsequently re-designated as an executive Director in April 2007. On 18 December 2007, Mr. Kwong was appointed as Chairman and Chief Executive Officer.

Ms. Lui Yuk Chu (Deputy Chairman)

Ms. Lui, aged 52, is an executive Director and Deputy Chairman of the Company and a member of the Executive Committee of the Board. She is also an executive director and Vice President, and a member of the Executive Committee of the board of directors of Easyknit International. Ms. Lui has been involved in the textiles industry for 30 years and has extensive experience in design, manufacturing, marketing and distribution of apparel. She serves as director of various subsidiaries of the Company and Easyknit International. Ms. Lui was appointed to the Board as an executive Director in March 2003 and was appointed as Deputy Chairman on 20 January 2006.

Non-executive Director

Mr. Tse Wing Chiu, Ricky

Mr. Tse, aged 51, is a non-executive Director of the Company. He is also a non-executive director of Easyknit International. Mr. Tse obtained a Master's Degree in Business Administration from Adam Smith University of America in the United States in 1996. He has more than 30 years of experience in garment manufacturing and merchandising. Mr. Tse was

appointed to the Board as an executive Director and Vice Chairman in November 2005, and was subsequently re-designated from Vice Chairman to Chairman and appointed as Chief Executive Officer in January 2006. On 18 December 2007, Mr. Tse was re-designated from an executive Director to a non-executive Director of the Company and resigned as Chairman and Chief Executive Officer.

Independent Non-executive Directors

Mr. Kan Ka Hon

Mr. Kan, aged 58, is a member and Chairman of the Audit Committee of the Board and a member of the Remuneration Committee of the Board. He holds a Bachelor's Degree in Science from The University of Hong Kong and is a fellow member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. He has over 30 years of experience in accounting and finance. Mr. Kan is also an independent non-executive director of Victory City International Holdings Limited. Mr. Kan was appointed to the Board in April 2003.

Mr. Lau Sin Ming

Mr. Lau, aged 48, is a member and Chairman of the Remuneration Committee of the Board and a member of the Audit Committee of the Board. He is a fellow member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. He has over 27 years of experience in accounting and auditing. Mr. Lau was appointed to the Board in September 2004.

Mr. Foo Tak Ching

Mr. Foo, aged 75, is a member of the Audit Committee and Remuneration Committee of the Board. He is currently a Partner of Messrs. Liu, Choi & Chan, a firm of solicitors and notaries in Hong Kong and has been practicing in the legal field for more than 30 years. He obtained his LL.B. from the University of London in the United Kingdom in 1968 and his diploma in Chinese Laws from the University of East Asia in Macau in 1987. Mr. Foo was admitted as a solicitor in England and Wales in 1972 and in Hong Kong in 1973 and admitted as a barrister and solicitor in the State of Victoria, Australia in 1982. He is a Notary Public and a China Appointed Attesting Officer. Mr. Foo was appointed to the Board in April 2007.

3. CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Principal place of business	Unit A, 7th Floor Hong Kong Spinners Building, Phase 6 481-483 Castle Peak Road Cheung Sha Wan, Kowloon Hong Kong
Company secretary	Chan Po Cheung FCPA, FCCA, ACA
Authorised representatives	Kwong Jimmy Cheung Tim Chan Po Cheung
Legal advisers to the Company	<i>On Hong Kong law:</i> Richards Butler in association with Reed Smith LLP 20th Floor Alexandra House 16-20 Chater Road Hong Kong <i>On Bermuda law:</i> Appleby 8th Floor, Bank of America Tower 12 Harcourt Road, Central Hong Kong
Auditor	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 35th Floor, One Pacific Place 88 Queensway Hong Kong
Branch share registrar and transfer office in Hong Kong	Tricor Secretaries Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

Principal share registrar and transfer office in Bermuda	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong

4. SHARE CAPITAL

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

Authorised:

<u>20,000,000,000</u> Shares	<u>HK\$200,000,000.00</u>
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Issued and fully-paid:

<u>367,124,450</u> Shares as at the Latest Practicable Date	<u>HK\$3,671,244.50</u>
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Each of the Shares in issue ranks *pari passu* with all other Shares in all respects including as to rights to dividends, voting and return of capital. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

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

5. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Provision of Division 7 and 8 of Part XV of the SFO (including interests or the short positions which they were taken or deemed to have

under such provision of the SFO); or (ii) pursuant to Section 352 of Part XV of the SFO, to be entered in the register referred therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity	Number of Shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Ms. Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	116,395,325	31.7%

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests or short positions in the Shares, underlying Shares and/or debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

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

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

6. DISCLOSURE OF INTEREST BY SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, the following persons (“Substantial Shareholders”)(other than the Directors and the chief executives of the Company) had the 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 Shares held (long position)	Approximate percentage to issued Shares
Koon Wing Yee (<i>note i</i>)	Interest of spouse	116,395,325	31.70%
Landmark Profits (<i>notes i and ii</i>)	Beneficial owner	116,395,325	31.70%
Easyknit International (<i>notes i and ii</i>)	Interest of controlled corporation	116,395,325	31.70%
Magical Profits Limited (<i>notes i and iii</i>)	Interest of controlled corporation	116,395,325	31.70%
Accumulate More Profits Limited (<i>note i</i>)	Interest of controlled corporation	116,395,325	31.70%
Hang Seng Bank Trustee International Limited (<i>notes i & iv</i>)	Trustee	116,395,325	31.70%
Hang Seng Bank Limited (<i>note iv</i>)	Interest of controlled corporation	116,395,325	31.70%
The Hongkong and Shanghai Banking Corporation Limited (<i>note iv and v</i>)	Interest of controlled corporation	116,395,326	31.70%
HSBC Asia Holdings BV (<i>note v</i>)	Interest of controlled corporation	116,395,326	31.70%
HSBC Asia Holdings (UK) (<i>note v</i>)	Interest of controlled corporation	116,395,326	31.70%
HSBC Holdings BV (<i>note v</i>)	Interest of controlled corporation	116,395,326	31.70%
HSBC Finance (Netherlands) (<i>note v</i>)	Interest of controlled corporation	116,395,326	31.70%
HSBC Holdings plc (<i>note v</i>)	Interest of controlled corporation	116,395,326	31.70%

Name of Shareholder	Nature of Interest	Number of Shares held (long position)	Approximate percentage to issued Shares
Park Jong Yong	Beneficial owner	46,817,470	12.75%
Phillip Securities (Hong Kong) Limited (<i>note vi</i>)	Beneficial owner	21,614,857	5.89%
Lim Hua Min (<i>note vi</i>)	Interest of controlled corporation	21,614,857	5.89%

Notes:

- (i) The 116,395,325 shares relate to the same block of shares in the Company. These shares were registered in the name of and were beneficially owned by Landmark Profits which was a wholly-owned subsidiary of Easyknit International. Magical Profits Limited (“Magical 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 116,395,325 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 116,395,326 Shares relate to the same block of shares. Out of 116,395,326 Shares, 116,395,325 Shares were registered in the name of and beneficially owned by Landmark Profits. 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.
- (vi) Phillip Securities (Hong Kong) Limited is 85%-owned by Lim Hua Min.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were 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.

7. 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).

8. LITIGATION

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

9. MATERIAL ADVERSE CHANGES

As disclosed in the interim report of the Group for the six months ended 30 September 2009, the Board decided to cease its knitting, bleaching and dyeing manufacturing operations by the end of November 2009 in order to prevent further losses. The Directors are of the opinion that, save for the aforesaid disclosure, there has not been 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.

10. DIRECTORS' INTEREST IN COMPETING BUSINESSES

Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu, the executive Directors of the Company, also serve as the executive directors of Easyknit International, which is in turn indirectly interested in approximately 31.70% of the issued share capital of the Company. Mr. Tse Wing Chiu Ricky, the non-executive Director of the Company, is also a non-executive director of Easyknit International. To the best of the Directors' knowledge, none of the Directors and their respective associates are considered to have any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group and/or the Easyknit International Group.

As disclosed in the interim report of the Group for the six months ended 30 September 2009, the Group has entered into the property investment business during that financial year. At the same time, the Easyknit International Group is also carrying on property investment and development businesses. The Directors consider that the property investment and development businesses conducted by the Easyknit International Group will not have material competition with the property investment business of the Group as the Group invests in individual property units for rental income, whereas the Easyknit International Group engages in larger scale property investment and development projects. The Group had not identified any property investment opportunity as at the Latest Practicable Date.

11. 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.

12. MATERIAL CONTRACTS

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

- (a) 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;
- (b) 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;
- (c) the formal agreement for sale and purchase dated 19 June 2009 entered into between Clever Wise Holdings Limited and Max Palace Corporation Limited in relation to the sale and purchase of a property at Johnston Road, Hong Kong;
- (d) an agreement dated 29 June 2009 entered into between Power Bright Investments Limited and Mr. Li Ming Hung for the sale and purchase of the entire issued share capital of Chancemore Limited and the assignment of the shareholder's loan of Chancemore Limited;
- (e) an agreement dated 29 June 2009 entered into between Power Bright Investments Limited and Mr. Li Ming Hung for the sale and purchase of the entire issued share capital of Clever Wise Holdings Limited and the assignment of the shareholder's loan of Clever Wise Holdings Limited;
- (f) the formal agreement for sale and purchase dated 3 September 2009 entered into between Chancemore Limited and Max Up Investments Limited in relation to the sale and purchase of a property at Matheson Street, Hong Kong;
- (g) the underwriting agreement dated 17 August 2009 (as supplemented by a side letter dated 21 August 2009) entered into between the Company and Kingston Securities Limited in relation to the underwriting and certain other arrangements in respect of the rights issue of 293,699,560 rights shares at HK\$0.38 per rights share on the basis of 4 rights shares for every share held;

- (h) the deed of assignment dated 11 September 2009 entered into between Mr. Li Ming Hung, Power Bright Investments Limited and Chancemore Limited in relation to the assignment of the shareholder's loan of Chancemore Limited referred to in (d) above;
- (i) the deed of assignment dated 11 September 2009 entered into between Mr. Li Ming Hung, Power Bright Investments Limited and Clever Wise Holdings Limited in relation to the assignment of the shareholder's loan of Clever Wise Holdings Limited referred to in (e) above;
- (j) the assignment dated 14 September 2009 made between Chancemore Limited and Max Up Investments Limited in relation to the completion of the purchase of the property at Matheson Street, Hong Kong by Chancemore Limited;
- (k) the assignment dated 21 September 2009 made between Clever Wise Holdings Limited and Max Palace Corporation Limited in relation to the completion of the purchase of the property at Johnston Road, Hong Kong by Clever Wise Holdings Limited; and
- (l) the Sale and Purchase Agreement.

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

13. EXPERTS AND CONSENTS

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

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
Pelican Securities	a corporation licensed to carry out business type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities under the SFO
BMI Appraisals Limited	independent professional valuer

As at the Latest Practicable Date, none of Deloitte Touche Tohmatsu, Pelican Securities or BMI Appraisals Limited had 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, none of Deloitte Touche Tohmatsu, Pelican Securities or BMI Appraisals Limited had 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.

Deloitte Touche Tohmatsu, Pelican Securities and BMI Appraisals Limited have given and have not withdrawn their written consent to the issue of this Circular with the inclusion of their letters or reports and the references to their name in the form and context in which they appear.

14. 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 HM 11 Bermuda and the principal place of business of the Company in Hong Kong is at Unit A, 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.

15. 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 Unit A, 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 letters of consent referred to in the paragraph headed "Experts and consents" above;
- (c) the material contracts referred to in the section headed "Material Contracts" of this appendix;
- (d) the annual reports of the Company for the two years ended 31 March 2009 and the interim report for the six months ended 30 September 2009;
- (e) the accountants' reports of the Target Companies for the three years ended 31 March 2009 and the six months ended 30 September 2009 as set out in Appendix II to this circular;
- (f) the accountants' report on the pro forma financial information of the Enlarged Group regarding the Transaction as set out in Appendix III to this circular;

- (g) the Valuation Report of BMI Appraisals Limited as referred to in Appendix IV to this circular;
- (h) the letter of advice from Pelican Securities, the text of which is set out on pages 35 to 49;
- (i) the accountants' report on the pro forma net assets statement of the Group together with Chancemore Limited and Clever Wise Holdings Limited regarding the transactions as set out in Appendix IX to this circular; and
- (j) this circular.

The following is the text of the unaudited pro forma financial information of the Group together with a report thereon received from Deloitte Touche Tohmatsu, as reproduced from Appendix III of the circular of the Company dated 24 July 2009 in connection with a major transaction.

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 IX
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE GROUP**

	The Group at 31 March 2009	Chancemore at 29 June 2009	Clever Wise at 29 June 2009	Pro forma adjustments				Pro forma total for the Enlarged Group
	<i>HK\$'000 (audited)</i>	<i>HK\$'000 (audited)</i>	<i>HK\$'000 (audited)</i>	<i>HK\$'000 (Note a)</i>	<i>HK\$'000 (Note b)</i>	<i>HK\$'000 (Note c)</i>	<i>HK\$'000 (Note d)</i>	<i>HK\$'000</i>
Non-current assets								
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>
Current assets								
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>
Current liabilities								
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>
Net current assets (liabilities)	<u>208,622</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(56,115)</u>	<u>(39,660)</u>	<u>112,847</u>
Net assets (liabilities)	<u>356,580</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>356,580</u>

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.

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.

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

NOTICE OF SGM



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 616)

NOTICE IS HEREBY GIVEN that a special general meeting of Easyknit Enterprises Holdings Limited (the “Company”) will be held at Unit A, 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on Wednesday, 17 February 2010 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed (with or without amendment) as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT** the sale and purchase agreement dated 3 December 2009 entered between Quick Easy Limited, a wholly-owned subsidiary of the Company, as purchaser, and Easyknit Properties Holdings Limited, a wholly-owned subsidiary of Easyknit International Holdings Limited, as vendor in relation to the sale and purchase of 2 shares of HK\$1 each in the issued share capital of Easyknit Global Company Limited, 2 shares of HK\$1 each in the issued share capital of Easyknit Worldwide Company Limited and 2 shares of HK\$1 each in the issued share capital of Grand Profit Development Limited, together representing the entire issued share capital of each of Easyknit Global Company Limited, Easyknit Worldwide Company Limited and Grand Profit Development Limited, at a consideration of HK\$80.0 million (the “Sale and Purchase Agreement”, a copy of which has been produced to this meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) be and is hereby generally and unconditionally ratified and approved and the directors of the Company be and are hereby authorised to do all such further things and acts and execute all such further documents and take all such steps which they consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Sale and Purchase Agreement and any of the transactions contemplated thereunder.”

2. “**THAT:**
 - (a) subject to paragraph 2(c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers,

* *For identification only*

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agreements or options (including warrants, bonds and debentures convertible into shares of the Company) which would or might require the exercise of such powers, subject to and in accordance with all applicable laws and the Bye-laws of the Company (“Bye-laws”), be and is hereby generally and unconditionally approved;

- (b) the approval in paragraph 2(a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements or options which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraphs 2(a) and 2(b) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), (ii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-laws or (iii) the exercise of any option granted under the share option scheme of the Company or (iv) the exercise of any subscription or conversion rights attached to warrants which might be issued by the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and
- (d) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable law to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

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3. **“THAT:**

- (a) subject to paragraph 3(b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its own shares, subject to and in accordance with all applicable laws and regulations, the Bye-laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph 3(a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and
- (c) for the purposes of this resolution: “Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable law to be held; or
 - (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

- 4 **“THAT,** subject to the passing of resolutions numbered 2 and numbered 3 above, the authority granted to the directors of the Company pursuant to resolution numbered 2 above be and is hereby extended by the addition to the aggregate nominal amount of share capital which may be allotted or agreed conditionally or unconditionally to be allotted pursuant to such authority an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to resolution numbered 3, provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution.”

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

Hong Kong, 29 January 2010

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Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be shareholder of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or the adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote.
4. Delivery of an instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting or upon the poll concerned and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
6. A form of proxy for use at the meeting is enclosed.
7. All resolutions will be voted on by way of poll.