



EASYKNIT ENTERPRISES HOLDINGS LIMITED

永義實業集團有限公司

(Stock Code : 0616)



Annual
Report
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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Kwong Jimmy Cheung Tim
(Chairman and Chief Executive Officer)
Ms. Lui Yuk Chu *(Deputy Chairman)*
Ms. Koon Ho Yan Candy

Non-Executive Director

Mr. Tse Wing Chiu, Ricky

Independent Non-Executive Directors

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

AUDIT COMMITTEE

Mr. Kan Ka Hon *(Chairman)*
Mr. Lau Sin Ming
Mr. Foo Tak Ching

REMUNERATION COMMITTEE

Mr. Lau Sin Ming *(Chairman)*
Mr. Kan Ka Hon
Mr. Foo Tak Ching

EXECUTIVE COMMITTEE

Mr. Kwong Jimmy Cheung Tim *(Chairman)*
Ms. Lui Yuk Chu
Ms. Koon Ho Yan Candy

COMPANY SECRETARY

Mr. Chan Po Cheung

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

As to Hong Kong law:
Richards Butler

As to Bermuda law:
Appleby

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited
Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

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

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

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CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the board of directors (the "Board") of Easyknit Enterprises Holdings Limited (the "Company"), I am pleased to announce the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 March 2010.

Financial Results

Discontinued operations

The existing bleaching, dyeing and knitting productions were discontinued in November 2009. Turnover from the discontinued operations for the eight months period amounted to approximately HK\$21,175,000, a decrease of approximately 64.7% as compared to the full year ended 31 March 2009 (2009: approximately HK\$59,960,000). The Group continued to record a gross loss of approximately HK\$3,136,000 for its discontinued operations (2009: gross loss of approximately HK\$1,621,000). The gross loss was due to the increase in fixed production cost per unit as a result of decrease in sales. Loss for the year from discontinued operations amounted to approximately HK\$9,021,000 (2009: approximately HK\$22,732,000). The loss was again due to the increase in fixed production cost per unit as a result of decrease in sales. On the other hand, the improvement in loss as compared to last year was due to the fact that only eight months of production were recorded during the year ended 31 March 2010 as opposed to twelve months for the year ended 31 March 2009. Loss per share from discontinued operations was HK\$0.045 (2009: HK\$0.944).

Continuing operations

For the year ended 31 March 2010, the Group recorded a turnover of approximately HK\$31,210,000 (2009: nil) for its new business operations, namely the garment sourcing and exporting and the property investment businesses. The gross profit was approximately HK\$5,354,000 (2009: nil). Loss for the year from continuing operations amounted to approximately HK\$9,037,000 (2009: approximately HK\$24,725,000). The improvement in loss was mainly due to no impairment loss was recognised in respect of property, plant and equipment for the year under review as compared to last corresponding year. Loss per share from continuing operations was HK\$0.045 (2009: HK\$1.027). Loss per share from continuing and discontinued operations was HK\$0.090 (2009: HK\$1.971).

The Group's total operating expenses for continuing operations increased to approximately HK\$15,421,000 (2009: approximately HK\$10,921,000). The increase of approximately 41.2% operating expenses was mainly due to the increase in administrative expenses such as staff salaries, rental and other overhead expenditures incurred by the newly acquired garment sourcing and exporting business, the tax provided for the Huzhou Project and the increase in legal and professional fees for various fund raising and acquisitions of properties and operating businesses during the year.

There was no finance costs incurred for the year under review (2009: approximately HK\$475,000). The finance cost incurred in 2009 was due to the imputed interest on the 1% HK\$37,650,000 convertible note due in March 2009. No such convertible note existed for the year under review.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the year ended 31 March 2010, the Group discontinued its bleaching, dyeing and knitting businesses and extended its operations to property investment and garment sourcing and exporting businesses.

Discontinued operations

The Group ceased its bleaching, dyeing and knitting businesses around the end of November 2009 in order to prevent further losses. These businesses have been loss making since the financial year ended 31 March 2006. During the past years, the Group faced with increasing pressure from high manufacturing costs, shortage of labour supply due to poor working condition and high cost in order to comply with the stringent environmental control and protection regulations. As a result, the Group earned very thin profit margin from these businesses. Besides, there was uncertainty on the ability of the Group to renew the operating license of bleaching and dyeing business, which are due to expire in 2011. All these adverse factors made the future of these businesses uncertain and unattractive. The cessation enables the Board to focus its attention on more profitable businesses.

Property Investment

As announced by the Company on 3 July 2009, the Group acquired two properties located at Ground and Cockloft Floor, No. 13 Matheson Street, Hong Kong and Ground Floor, No. 148 Johnston Road, Hong Kong for total considerations of HK\$53,688,000 and HK\$38,000,000 respectively. The acquisitions were completed in September 2009. Details of the two transactions were disclosed in the Company's circular dated 24 July 2009. The two acquisitions enable the Group to extend its business activities to property investments. As the two properties are located in the prime area of Hong Kong Island, the Board expects to receive a steady income stream from property rental and the likely increase in value of the properties over time.

During the year, turnover generated from the above two properties in Hong Kong and the properties in the PRC was approximately HK\$2,322,000 (2009: nil), representing about 7.4% of the total turnover of the Group's continuing businesses. Operating profit for this segment was approximately HK\$954,000 (2009: nil).

Garment sourcing and exporting business

As announced by the Company on 8 December 2009, the Group acquired the garment sourcing and exporting business in cotton-based knitted garments for infants, children and women from its controlling shareholder, Easyknit International Holdings Limited, to replace its businesses of bleaching, dyeing and knitting which have been terminated around November 2009. Details of the transaction were disclosed in the circular sent to shareholders on 29 January 2010. The directors of the Company believe the profit margin from garment sourcing and exporting business will be more attractive than the bleaching, dyeing and knitting businesses. The acquisition of the garment sourcing and exporting business would enable the Group to enter the garment trading business immediately without the need to start it from scratch. Besides, capital investment in garment sourcing and exporting business is low. There are also no tight environment regulations that are required to comply with. The garment sourcing and exporting business is also less sensitive to volatility of raw material prices. The acquisition enables the Group to acquire an alternative business in garment industry and allow the Group to continue with the utilisation of its management expertise and customer networks in the garment industry.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

As the acquisition of the garment sourcing and exporting business was completed on 1 March 2010, only one month turnover has been recorded by the Group. Turnover for this business segment up to end of March 2010 was approximately HK\$28,888,000 (2009: nil), representing approximately 92.6% of the total turnover of the Group's continuing operations. Operating profit for this segment was approximately HK\$288,000 (2009: nil).

Geographical analysis

The Group's income from the discontinued operations of bleaching, dyeing and knitting were mainly derived from sales made to customers in Hong Kong with manufacturing operations located in the PRC while the turnover from garment sourcing and exporting business were mainly derived from customers in the United States of America (the "US"). Rental income from investment properties were derived from properties located in Hong Kong and in the PRC.

Development of Huzhou Project

Two blocks of factory premises and four blocks of workers' quarters have been completed on the land for garment manufacturing operation in Huzhou. 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 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 Zhili Town Government has now agreed to repurchase the land for knitting, bleaching and dyeing operations of the Huzhou Project at a profit to the Group and also to repay the refundable deposit to the Group. Payments are expected to be made to the Group before September 2010.

Prospects

The Board has ceased its knitting, bleaching and dyeing manufacturing operations and changed to garment trading and investment in real properties businesses.

As regard to the Huzhou Project, the Board together with the Huzhou Government is looking at other options for the use of the land marked for garment manufacturing operation.

The Group's major market for the garment sourcing and exporting business will remain focused on the US and Europe, which are relatively mature and where the customer demand in the long run is expected to be relatively stable notwithstanding any short term fluctuation. The Board will continue to keep its focus in the trading of garments, areas in which the Group have expertise. The Board will strengthen the business relationship with existing customers and look for opportunity to expand its customer base.

The local property market has seen recovery in 2009 and first half of 2010. This reflected that Hong Kong remains as one of the most attractive markets for property investment. The Board will keep the two properties for investment purpose and constantly look for other opportunity to maximise shareholders' return.

Liquidity and Financial Resources

During the year ended 31 March 2010, the Group financed its operations mainly by internally generated resources, and the net proceeds of approximately HK\$111 million raised from the Rights Issue, details of the Rights Issue are shown in section "Capital Structure" below. As at 31 March 2010 and 31 March 2009, the Group had no outstanding bank borrowings. Shareholders' funds of the Group as at 31 March 2010 was approximately HK\$489,983,000 (31 March 2009: approximately HK\$356,580,000). As the Group had no borrowings as at 31 March 2010 and 31 March 2009, no gearing ratio of the Group was presented.

The Group continued to sustain a liquidity position. As at 31 March 2010, the Group had net current assets of approximately HK\$187,649,000 (31 March 2009: approximately HK\$208,622,000) and cash and cash equivalents of approximately HK\$127,912,000 (31 March 2009: approximately HK\$154,870,000). The Group's cash and cash equivalents were mainly denominated in Hong Kong dollars, Renminbi and USD. As at 31 March 2010, the Group's current ratio was approximately 5.6 (31 March 2009: approximately 7.6), which was calculated on the basis of current assets of approximately HK\$191,380,000 (31 March 2009: approximately HK\$240,161,000) and assets classified as held for sale of approximately HK\$36,834,000 (31 March 2009: nil) to current liabilities of approximately HK\$40,565,000 (31 March 2009: approximately HK\$31,539,000). 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 US dollars, 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

At the special general meeting of the Company held on 13 October 2009, a special resolution approving the capital re-organisation (as detailed below) was passed and the capital organization became effective on 14 October 2009.

- (a) the reduction of the nominal value of all issued shares of the Company from HK\$0.01 to HK\$0.001 each by cancelling the paid up capital to the extent of HK\$0.009 on each issued share ("Issued Capital Reduction");
- (b) the consolidation of every 10 issued reduced shares of HK\$0.001 each into one adjusted shares of HK\$0.01 each upon the Issued Capital Reduction becoming effective;
- (c) the reduction of the entire amount standing to credit of the share premium account of the Company to nil ("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.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

At the same special general meeting of the Company held on 13 October 2009, an ordinary resolution approving the rights issue of 293,699,560 rights shares at the subscription price of HK\$0.38 per rights share on the basis of four rights shares for every adjusted shares held ("Rights Issue") was passed after the passing of the capital re-organisation. The said 293,699,560 rights shares were allotted by the Company on 3 November 2009.

Details of the capital organization and the Rights Issue were set out in the Company's circular and prospectus dated 11 September 2009 and 14 October 2009 respectively.

Save as disclosed above, the Group had no debt securities or other capital instruments as at 31 March 2010 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") through one of its wholly-owned subsidiaries. The acquisitions enabled the Group to acquire the 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"). The total considerations for the acquisition of the Matheson Street Property and the Johnston Road Property are HK\$53,688,000 and HK\$38,000,000 respectively. The acquisitions were approved by the shareholders of the Company at a special general meeting held on 12 August 2009. Chancemore and Clever Wise became wholly-owned subsidiaries of the Company on 11 September 2009. Completions of the Matheson Street Property and the Johnston Road Property were taken place in September 2009. Details of these two acquisitions were set out in the Company's circular dated 24 July 2009.

As announced on 22 October 2009, a wholly-owned subsidiary of the Company 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).

As announced by the Company on 8 December 2009, the Group acquired the entire issued share capital of three companies, namely Easyknit Global Company Limited, Easyknit Worldwide Company Limited and Grand Profit Development Limited, all of which are engaged in the business of garment sourcing and exporting from a subsidiary of its controlling shareholder, Easyknit International Holdings Limited, for a total consideration of HK\$80,000,000. The acquisition was approved by shareholders of the Company at a special general meeting held on 17 February 2010 and the completion was taken place on 1 March 2010. Details of the transaction were set out in the Company's circular dated 29 January 2010.

As announced by the Company on 1 March 2010, two wholly-owned subsidiaries of the Group, as the sellers, have entered into sale and purchase agreement with Zhili Town Government of the People's Republic of China ("PRC"), as the purchaser, for the disposal of the three pieces of land forming part of the site of an aggregate area of approximately 303 mu (Equivalent to approximately 202,000 sq. m.) situated at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the PRC and the South of Hongtang Harbour, PRC. The two disposals were approved by the shareholders of the Company at a special general meeting held on 23 April 2010. Details of the two disposals were set out in the Company's circular dated 31 March 2010.

Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries and associated companies for the year ended 31 March 2010.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

Charges on Group Assets

The Group did not have any charges on assets as at 31 March 2010.

Capital Expenditure and Capital Commitments

During the year ended 31 March 2010, the Group spent approximately HK\$1,115,000 on acquisition of property, plant and equipment (2009: approximately HK\$29,690,000).

As at 31 March 2010, the Group had capital commitments in respect of capital expenditure contracted but not provided for of approximately HK\$2,142,000 (31 March 2009: approximately HK\$1,153,000) and had no capital expenditure authorised but not contracted for (31 March 2009: nil).

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 March 2010 (31 March 2009: nil).

Significant Investment

Apart from the investment in Huzhou Project, the acquisitions of the Matheson Street Property, the Johnston Road Property and the garment sourcing and exporting business, the Group did not have any significant investment held as at 31 March 2010.

Future Plan for Material Investments

While the directors of the Company are constantly looking for investment opportunities, no concrete new investment projects have been identified.

Employment and Remuneration Policy

As at 31 March 2010, the Group employed approximately 55 full time management, technical, administrative staff and workers in Hong Kong and the PRC. Staff cost (including directors' emoluments) amounted to approximately HK\$8,763,000 for the year under review (2009: approximately HK\$10,102,000). 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.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to our staff and fellow directors for their contribution to the Group's development and cordial thanks to the continuing support of our customers, suppliers, business associates and shareholders.

Kwong Jimmy Cheung Tim

Chairman and Chief Executive Officer

Hong Kong, 22 June 2010

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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 Holdings Limited (“Easyknit International”). Mr. Kwong was graduated from The University of Hong Kong in 1965 and was admitted as Barrister-at-law in the United Kingdom in 1970 and Hong Kong in 1973 respectively. He has over 30 years of experience in the legal field. He serves as director of various subsidiaries of the Company and Easyknit International. Mr. Kwong was appointed to the Board as an independent non-executive director in April 2003, and was subsequently re-designated as an executive director in April 2007. On 18 December 2007, Mr. Kwong was appointed as Chairman and Chief Executive Officer.

Ms. Lui Yuk Chu

Deputy Chairman

Ms. Lui, aged 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 over 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. She is the mother of Ms. Koon Ho Yan Candy, an executive director of the Company.

Ms. Koon Ho Yan Candy

Ms. Koon, aged 25, is an executive director of the Company and a member of the Executive Committee of the Board. She graduated from the University of Durham in 2007 with Bachelor of Arts degree in Economics and Politics. She also received her Bachelor of Laws degree and Legal Practice Course qualification in 2009 from the College of Law, England. Ms. Koon is also an executive director and a member of the Executive Committee of the board of directors of Easyknit International. She serves as director of various subsidiaries of the Company and Easyknit International. Ms. Koon was appointed to the Board as an executive director in May 2010. Ms. Koon is the daughter of Ms. Lui, the Deputy Chairman of the Company.

NON-EXECUTIVE DIRECTOR

Mr. Tse Wing Chiu, Ricky

Mr. Tse, aged 52, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kan Ka Hon

Mr. Kan, aged 59, 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 (Stock Code: 539). He resigned as an executive director of Chevalier International Holdings Limited (Stock Code: 025) and Chevalier Pacific Holdings Limited (Stock Code: 508) on 31 March 2008. 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 28 years of experience in accounting and auditing. Mr. Lau was appointed to the Board in September 2004.

Mr. Foo Tak Ching

Mr. Foo, aged 76, is a member of the Audit Committee and Remuneration Committee of the Board. He is currently a Partner of Messrs. Liu, Choi & Chan, a firm of solicitors and notaries in Hong Kong and has been practising in the legal field for more than 30 years. He obtained his LL.B. from the University of London in the United Kingdom in 1968 and his diploma in Chinese Laws from the University of East Asia in Macau in 1987. Mr. Foo was admitted as a solicitor in England and Wales in 1972 and Hong Kong in 1973 respectively and as a barrister and solicitor in the State of Victoria, Australia in 1982. He is a Notary Public and a China Appointed Attesting Officer. Mr. Foo was appointed to the Board in April 2007.

SENIOR MANAGEMENT

Miss Ho Yuen Yi

Assistant General Manager

Miss Ho, aged 54, joined the Group in 2010. Prior to joining the Group, Miss Ho worked as an assistant general manager in a subsidiary of Easyknit International since 2005. She is responsible for the Group's merchandising, shipping and quality control.

The board of directors of the Company (the “Board”) is committed to achieving high standards of corporate governance by emphasising transparency, independence, accountability, responsibility and fairness. The Board strives to ensure that effective self-regulatory practices exist to protect the interests of the shareholders of the Company and to enhance long-term shareholders’ value.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 March 2010, the Company has applied the principles of, and complied with, all the code provisions of the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) except for the following deviations. Nevertheless, none of the deviations are considered by the Board to be material or inappropriate given the size, nature and circumstances of the Group.

Code provision A.2.1

Mr. Kwong Jimmy Cheung Tim is the Chairman and Chief Executive Officer of the Company. The Board considers that the combination of the roles of Chairman and Chief Executive Officer will not impair the balance of power and authority between the Board and the management of the Company as the Board will meet regularly to consider major matters affecting the operations of the Group. The Board is of the view that this structure provides the Group with strong and consistent leadership, which can facilitate the formulation and implementation of its strategies and decisions and enable it to grasp business opportunities and react to changes efficiently. As such, it is beneficial to the business prospects of the Group.

Code provision A.4.1

All the non-executive directors of the Company are not appointed for a specific term, but they are subject to retirement by rotation no later than the third annual general meeting after they were last elected or re-elected pursuant to the Bye-laws of the Company.

Code provision A.4.2

According to the Special Act of the Company (the “Act”), no director holding the office of Chairman or Managing Director shall be subject to retirement by rotation as provided in the Bye-laws of the Company. As the Company is bound by the provisions of the Act, the Bye-laws of the Company cannot be amended to fully reflect the requirements of the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as its own code of conduct in relation to directors’ securities transactions. All directors of the Company have confirmed, following specific enquiry made by the Company, that they complied with the required standard set out in the Model Code throughout the year ended 31 March 2010.

Relevant employees who are likely to be in possession of unpublished price sensitive information of the Group are also subject to similar compliance.

BOARD OF DIRECTORS

The Board currently comprises seven directors, with three executive directors, one non-executive director and three independent non-executive directors. The composition of the Board during the year and up to the date of this report is set out as follows:

Executive directors:

Mr. Kwong Jimmy Cheung Tim – *Chairman and Chief Executive Officer*

Ms. Lui Yuk Chu – *Deputy Chairman*

Ms. Koon Ho Yan Candy (appointed on 5 May 2010)

Non-executive director:

Mr. Tse Wing Chiu, Ricky

Independent non-executive directors:

Mr. Kan Ka Hon

Mr. Lau Sin Ming

Mr. Foo Tak Ching

The biographical details of the existing directors are set out in the “Biographical Details of Directors” on pages 9 to 10 of this annual report.

Throughout the year ended 31 March 2010, the Company complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise. The Board has received from each independent non-executive director an annual confirmation of his independence and considers that all the independent non-executive directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The Board members have no financial, business, family or other material/relevant relationships with each other except that Ms. Koon Ho Yan Candy, who was appointed on 5 May 2010, is the daughter of Ms. Lui Yuk Chu, the Deputy Chairman of the Company.

The Board met five times during the year ended 31 March 2010. The individual attendance records of the directors at the Board meetings were as follows:

Name of directors	Number of meetings attended	Attendance rate
Executive directors		
Mr. Kwong Jimmy Cheung Tim	5/5	100%
Ms. Lui Yuk Chu	5/5	100%
Non-executive director		
Mr. Tse Wing Chiu, Ricky	5/5	100%
Independent non-executive directors		
Mr. Kan Ka Hon	5/5	100%
Mr. Lau Sin Ming	5/5	100%
Mr. Foo Tak Ching	5/5	100%

The Board has reserved for its decision or consideration matters covering mainly the corporate strategy, board composition, material transactions and investments, risk management, internal control and other significant policies and financial matters. The Board has delegated responsibility for day-to-day management of the Group through the Chief Executive Officer down to the executive management. The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board in December 2005. Such arrangement will be reviewed periodically.

Chairman and Chief Executive Officer

Mr. Kwong Jimmy Cheung Tim currently assumes the roles of both the Chairman and Chief Executive Officer of the Company. The reasons for the deviation from the Code provision A.2.1 are explained in the section headed "Corporate Governance Practices" above.

Retirement and re-election of directors

The Bye-laws of the Company provide that (1) every director (save and except for the Managing Director and Chairman) is required to retire by rotation at the annual general meeting no later than the third annual general meeting after he was last elected or re-elected and the directors to retire at every annual general meeting shall be decided by the Board; and (2) any director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following annual general meeting of the Company (in case of an addition to the Board) and shall then be eligible for re-election at the meeting.

Non-executive directors

There are currently four non-executive directors on the Board, three of them are independent. All the non-executive directors of the Company are not appointed for a specific term, but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

BOARD COMMITTEES

The Board has established three committees, namely the Remuneration Committee, the Audit Committee and the Executive Committee with clearly defined written terms of reference. Each committee reports back to the Board on its decisions or recommendations after each meeting for further discussion and approval, unless there are legal or regulatory restrictions on its ability to do so.

Remuneration Committee

The Company has established a Remuneration Committee. The terms of reference of the Remuneration Committee has been revised in February 2009 in full compliance with the provisions set out in the Code.

The Remuneration Committee currently comprises three independent non-executive directors, namely Mr. Lau Sin Ming (Committee Chairman), Mr. Kan Ka Hon and Mr. Foo Tak Ching. The principal duties of the Remuneration Committee include (i) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management; (ii) to make recommendations to the Board on the remuneration packages of all directors and senior management; (iii) to review and approve performance-based remuneration; and (iv) to ensure that no director or any of his associates is involved in deciding his own remuneration.

The primary objective of the Company's remuneration policy is to attract, retain and motivate the personnels by providing fair reward for their contributions to the Group's performance. In this context, the remuneration policy is to set the overall remuneration package at a competitive level and in a form that permits additional remuneration to be earned for high performance over a sustained period. The remuneration packages are determined with reference to the time commitment and responsibilities of each individual, the Company's performance and the prevailing market conditions.

During the year ended 31 March 2010, one Remuneration Committee meeting was held. The individual attendance records of the committee members were as follows:

Name of committee members	Number of meetings attended	Attendance rate
Mr. Lau Sin Ming	1/1	100%
Mr. Kan Ka Hon	1/1	100%
Mr. Foo Tak Ching	1/1	100%

The Remuneration Committee has reviewed and recommended the remuneration packages for each director and senior management of the Company for the year ended 31 March 2010 for the Board's approval.

For the year ended 31 March 2010, the main components of the executive directors' remuneration were director's fee, basic salary, benefits in kind, discretionary performance based bonus, retirement benefits and participation in the share option scheme adopted by the shareholders of the Company in June 2002 (the "Share Option Scheme").

The non-executive director and independent non-executive directors did not receive any discretionary bonus or other benefits from the Company for the year ended 31 March 2010. But each of them was entitled to a director's fee and was eligible for the Share Option Scheme subject to the approval of the shareholders of the Company.

During the year ended 31 March 2010, no director was involved in deciding his own remuneration.

Audit Committee

The Company has established an Audit Committee. The terms of reference of the Audit Committee has been revised in February 2009 in compliance with the provisions set out in the Code.

The Audit Committee currently comprises three independent non-executive directors, namely Mr. Kan Ka Hon (Committee Chairman), Mr. Lau Sin Ming and Mr. Foo Tak Ching. Executive directors, senior management, head of Accounts Department, representatives of the external auditor of the Company (the "Auditor") or other persons will be invited to attend the meetings of the Audit Committee as and when required.

The principal duties of the Audit Committee include, (i) to oversee the relationship with the Auditor; (ii) to review the interim and annual financial statements before publication; and (iii) to oversee the Group's financial reporting system and internal control procedures.

During the year ended 31 March 2010, two Audit Committee meetings were held. The individual attendance records of the committee members were as follows:

Name of committee members	Number of meetings attended	Attendance rate
Mr. Kan Ka Hon	2/2	100%
Mr. Lau Sin Ming	2/2	100%
Mr. Foo Tak Ching	2/2	100%

During the year ended 31 March 2010, the Audit Committee (i) reviewed the reports from the Auditor, accounting principles and practices adopted by the Group, management representation letters, and management's response in relation to the annual results for the year ended 31 March 2009 and the interim results for the six months ended 30 September 2009; and (ii) reviewed the financial reports for the year ended 31 March 2009 and for the six months ended 30 September 2009 and recommended the same to the Board for approval.

The Audit Committee has reviewed with the management and the Auditor the audited consolidated financial statements of the Company for the year ended 31 March 2010.

Executive Committee

On 5 May 2010, Ms. Koon Ho Yan Candy was appointed as a member of the Executive Committee.

The Executive Committee currently comprises all the executive directors of the Company, namely Mr. Kwong Jimmy Cheung Tim (Committee Chairman), Ms. Lui Yuk Chu and Ms. Koon Ho Yan Candy. It meets as and when required between regular Board meetings of the Company, and operates as a general management committee under the direct authority of the Board. Within the parameters of authority delegated by the Board, the Executive Committee sees to the implementation of the Group's strategy set by the Board, monitors the Group's investment and trading performance, funding and financing requirements, and reviews the management performance.

AUDITOR'S REMUNERATION

For the year ended 31 March 2010, the Auditor received approximately HK\$941,000 for audit service and approximately HK\$3,041,000 for non-audit services related to interim review, preliminary announcement of results, acquisitions of subsidiaries and rights issue of the Company's shares.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board is empowered under the Company's Bye-laws to appoint any person as director either to fill a casual vacancy or as an addition to the Board.

A written director nomination policy was adopted by the Board in March 2006 with the intent to provide a set of guidelines for the effective functioning of the Company's director nomination process. The policy stipulates the criteria for identifying director candidates and the procedures for nomination, evaluation and assessment of candidates for directorship. The selection criteria are mainly based on their personal and professional integrity, independent mindedness, commitment to the Company, experience relevant to the Company's business as well as compliance with legal and regulatory requirements.

There was no change to the composition of the Board during the year ended 31 March 2010.

FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements of the Group. With the assistance of the Accounts Department, the directors ensure that the preparation of the financial statements of the Group are in accordance with the statutory requirements and applicable accounting standards. The directors also ensure timely publication of the financial statements of the Group.

The statement of the Auditor regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 25 to 26.

INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective system of internal control of the Group to safeguard the shareholders' investment and the Group's assets, and reviewing its effectiveness.

The Group's internal control system, including a defined management structure with limits of authority and segregation of duties and periodic review by the Board of the operational and financial reports prepared by the management or the Auditor, is designed to safeguard assets against unauthorised use or disposition, ensure maintenance of proper accounting records for provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system aims to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Board has conducted a review of effectiveness of the system of internal control and risk management of the Group for the financial year ended 31 March 2010. The Board has also discussed in details the results of the review in the regular board meeting. Recommendations have been suggested to and adopted by the management of the Group in order to enhance its system of internal control and risk management functions.

The Board is of the view that the Company has the appropriate accounting systems and adequate human resources to discharge the financial reporting function of the Group for the year ended 31 March 2010. Training programmes and budget will be provided from time to time for further enhancement.

COMMUNICATION WITH SHAREHOLDERS

The Company values the views of its shareholders and recognises their interests in the Group's strategy and performance. All shareholders are welcome to the annual general meeting of the Company, at which directors of the Company will be available to answer questions from shareholders. Communication is also provided through the annual reports, interim reports, announcements and circulars issued by the Company from time to time. Shareholders may also contact the Company in writing or visit the Company's website www.easyknitenterp.com for information about the Group and its activities.

In compliance with the Code, all annual general meetings shall be called by at least 20 clear business days' notice, whilst other general meetings shall be called by at least 10 clear business days' notice. All resolutions at general meetings are dealt with by poll. An announcement on the poll vote results will be published in the websites of the Stock Exchange and the Company following the relevant general meeting.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 36 to the consolidated financial statements.

During the year, the Group acquired the entire issued share capital of each of Easyknit Global Company Limited, Easyknit Worldwide Company Limited and Grand Profit Development Limited (collectively the "Garment Trading Companies"), which are principally engaged in garment sourcing and exporting, for a consideration of HK\$80 million.

RESULTS

The results of the Group are set out in the consolidated statement of comprehensive income on page 27.

SHARE CAPITAL

The details of movements in the Company's share capital during the year are set out in note 29 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent HK\$1,115,000 on acquisition of property, plant and equipment. The details of movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 March 2010 by independent professional property valuers and the gain arising on changes in fair value of investment properties, which had been charged directly to profit or loss, amounted to HK\$1,189,000. Details of these are set out in note 18 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company had no reserves available for distribution at 31 March 2010.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Kwong Jimmy Cheung Tim (*Chairman and Chief Executive Officer*)

Lui Yuk Chu (*Deputy Chairman*)

Koon Ho Yan, Candy (*appointed on 5 May 2010*)

Non-executive director:

Tse Wing Chiu, Ricky

Independent non-executive directors:

Kan Ka Hon

Lau Sin Ming

Foo Tak Ching

In accordance with the Company's Bye-law 99, Ms. Lui Yuk Chu and Mr. Foo Tak Ching will retire from office at the forthcoming annual general meeting of the Company by rotation and, being eligible, have offered themselves for re-election.

In accordance with the Company's Bye-law 102(B), Ms. Koon Ho Yan, Candy will hold office until the forthcoming annual general meeting of the Company and, being eligible, has offered herself for re-election.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

None of the directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in paragraph (b) of the section headed "Connection Transactions" below, there was no contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected Transactions" below, there was no contract of significance between the Company or its subsidiaries and a controlling shareholder or any of its subsidiaries subsisting during or at the end of the year, and there was no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2010, 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 Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of director	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Ms. Lui Yuk Chu (Note)	Beneficiary of a trust	116,395,325	31.70%

Note: These shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit International Holdings Limited ("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 and her family members other than her spouse).

Save as disclosed above, as at 31 March 2010, none of the directors or chief executives of the Company had any interests or short positions 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 had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of the Company's share option scheme and movements of options during the year are set out in note 30 to the consolidated financial statements.

No share options were granted to, or exercised by, the directors during the year. There was no outstanding option granted to the directors at the beginning and at the end of the year.

Save as disclosed above, at no time during the year ended 31 March 2010 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2010, the persons (other than the directors or the chief executives of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Koon Wing Yee (<i>note i</i>)	Interest of spouse	116,395,325	31.70%
Landmark Profits Limited (<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 (<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 & Shanghai Banking Corporation Limited (<i>notes 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%
Park Jong Yong	Beneficial owner	46,817,470	12.75%
Daswani Rajkumar Murlidhar	Beneficial owner	29,028,143	7.90%

DIRECTORS' REPORT

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 Limited which was a wholly-owned subsidiary of Easyknit International. 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 of the Company, and her family members other than her spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 116,395,325 shares by virtue of the SFO.
- (ii) Mr. Kwong Jimmy Cheung Tim and Ms. Lui Yuk Chu, being directors of the Company, are also directors of Landmark Profits Limited and Easyknit International.
- (iii) Ms. Lui Yuk Chu, being a director of the Company, 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 and Shanghai Banking Corporation Limited.
- (v) The 116,395,326 shares relate to the same block of shares. Out of the 116,395,326 shares, 116,395,325 shares were registered and beneficiary owned by Landmark Profits Limited. The remaining one share was held by HSBC Broking Securities (Asia) Limited, which was a wholly-owned subsidiary of HSBC Broking Services (Asia) Limited which in turn was wholly-owned by The Hongkong and Shanghai Banking Corporation Limited. The Hongkong and Shanghai Banking Corporation Limited was wholly-owned by HSBC Asia Holdings BV which was a wholly-owned subsidiary of HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) was wholly-owned by HSBC Holdings BV which in turn was wholly-owned by HSBC Finance (Netherlands). HSBC Finance (Netherlands) was a wholly-owned subsidiary of HSBC Holdings plc.

Save as disclosed above, as at 31 March 2010, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

- (a) During the year, the Group entered into an agreement with Easyknit Properties Holdings Limited for the acquisition of the entire issued share capital of the Garment Trading Companies for a consideration of HK\$80 million. Easyknit Properties Holdings Limited, being vendor of this transaction, is a wholly-owned subsidiary of Easyknit International. Details of this transaction, which was completed on 1 March 2010, are set out in note 31 to the consolidated financial statements.
- (b) During the year, the Company entered into a consultancy agreement with Mr. Koon Wing Yee for consultancy services provided by Mr. Koon Wing Yee to the Group for a fee of HK\$498,000 per annum which shall be payable in arrears by twelve monthly instalments of HK\$41,500 each. The consultancy agreement is for a period of one year commencing on 15 January 2010 but may be terminated by either party at any time by one month's notice. Mr. Koon Wing Yee is the spouse of Ms. Lui Yuk Chu, who is a director of the Company and also a director of Magical Profits. Consultancy fee paid and payable to Mr. Koon Wing Yee during the year amounted to HK\$103,750.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers of the Group accounted for approximately 97% of the Group's purchases and the largest supplier accounted for approximately 45% of the Group's purchases.

The five largest customers of the Group accounted for approximately 95% of the Group's turnover and the largest customer accounted for approximately 81% of the Group's turnover.

At 31 March 2010, a wholly-owned subsidiary of Easyknit International was one of the Group's largest customers. All transactions between the Group and this customer were carried out on normal commercial terms. Other than this, none of the directors, their associates and shareholders of the Company (which to the knowledge of the directors of the Company, own more than 5% of the Company's share capital) have an interest in the Group's five largest suppliers or customers.

PURCHASE, SALE AND REDEMPTION OF SHARES

There was no purchase, sale and redemption of the Company's shares by the Company or any of its subsidiaries during the year ended 31 March 2010.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the executive directors of the Company on the basis of their performance, experience and prevailing industry practice.

The emolument of the directors of the Company is determined by the Board after recommendation from the Remuneration Committee, having regard to the time commitment and responsibilities of individual directors, the Company's performance and the prevailing market conditions.

The Company has adopted a share option scheme as an incentive to directors and eligible employees. Details of the scheme are set out in note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors as at the date of this report, the Company has maintained a sufficient public float as required under the Rules Governing the Listing of Securities on the Stock Exchange.

DIRECTORS' REPORT

AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Kwong Jimmy Cheung Tim
Chairman and Chief Executive Officer

Hong Kong, 22 June 2010

**TO THE MEMBERS OF EASYKNIT ENTERPRISES HOLDINGS LIMITED**

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Easyknit Enterprises Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 27 to 90, which comprise the consolidated statement of financial position as at 31 March 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

22 June 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2010

	<i>NOTES</i>	2010 HK\$'000	2009 HK\$'000
Continuing operations:			
Turnover	7	31,210	—
Cost of sales		<u>(25,856)</u>	<u>—</u>
Gross profit		5,354	—
Other income		311	1,430
Other expenses		(2,068)	(2,263)
Distribution and selling expenses		(582)	—
Administrative expenses		(12,771)	(8,658)
Gain arising on changes in fair value of investment properties		1,189	—
Gain on fair value changes of investments held for trading		119	344
Impairment loss recognised in respect of property, plant and equipment		—	(15,058)
Finance costs	9	<u>—</u>	<u>(475)</u>
Loss before taxation		(8,448)	(24,680)
Taxation	11	<u>(589)</u>	<u>(45)</u>
Loss for the year from continuing operations	12	<u>(9,037)</u>	<u>(24,725)</u>
Discontinued operations:			
Loss for the year from discontinued operations	13	<u>(9,021)</u>	<u>(22,732)</u>
Loss for the year		<u>(18,058)</u>	<u>(47,457)</u>
Other comprehensive income			
Exchange differences arising on translation of foreign operations		—	3,467
Gain on revaluation of property, plant and equipment		1,435	—
Gain on revaluation of prepaid lease payments		52,730	—
Deferred tax liabilities in respect of revaluations		<u>(13,541)</u>	<u>—</u>
Other comprehensive income for the year		<u>40,624</u>	<u>3,467</u>
Total comprehensive income (expense) for the year		<u><u>22,566</u></u>	<u><u>(43,990)</u></u>
Basic loss per share			
From continuing and discontinued operations	14	<u><u>HK\$(0.090)</u></u>	<u><u>HK\$(1.971)</u></u>
From continuing operations		<u><u>HK\$(0.045)</u></u>	<u><u>HK\$(1.027)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2010

	NOTES	2010 HK\$'000	2009 HK\$'000
Non-current assets			
Property, plant and equipment	16	1,363	106,999
Prepaid lease payments	17	—	40,921
Investment properties	18	255,163	—
Goodwill	19	39,313	—
Intangible asset	20	24,740	—
Deposits for acquisition of property, plant and equipment		—	38
		<u>320,579</u>	<u>147,958</u>
Current assets			
Inventories	21	275	6,008
Trade and other receivables	22	32,972	64,346
Bills receivable	23	26,266	—
Prepaid lease payments	17	—	881
Investments held for trading	24	3,955	4,056
Pledged bank deposits	25	—	10,000
Bank balances and cash	25	127,912	154,870
		<u>191,380</u>	<u>240,161</u>
Assets classified as held for sale	13	<u>36,834</u>	<u>—</u>
		<u>228,214</u>	<u>240,161</u>
Current liabilities			
Trade and other payables	26	33,855	23,732
Bills payable	27	—	1,739
Tax payable		6,710	6,068
		<u>40,565</u>	<u>31,539</u>
Net current assets		<u>187,649</u>	<u>208,622</u>
Total assets less current liabilities		<u>508,228</u>	<u>356,580</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2010

	NOTES	2010 HK\$'000	2009 HK\$'000
Non-current liabilities			
Deferred tax liabilities	28	18,245	—
		<u>489,983</u>	<u>356,580</u>
Capital and reserves			
Share capital	29	3,671	7,342
Reserves		<u>486,312</u>	<u>349,238</u>
		<u>489,983</u>	<u>356,580</u>

The consolidated financial statements on pages 27 to 90 were approved and authorised for issue by the Board of Directors on 22 June 2010 and are signed on its behalf by:

Kwong Jimmy Cheung Tim
DIRECTOR

Lui Yuk Chu
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2010

	Share capital	Share premium	Convertible note equity reserve	Capital reserve	Contributed surplus	Exchange reserve	Property revaluation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 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 comprehensive income (expense) for the year	—	—	—	—	—	3,467	—	(47,457)	(43,990)
On conversion of convertible note	7,843	30,449	(4,128)	—	—	—	—	—	34,164
Reduction of share capital upon capital reorganisation (see note 29(c))	(66,082)	—	—	—	—	—	—	66,082	—
Rights issue of shares (see note 29(d))	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
Gain on revaluation of property, plant and equipment	—	—	—	—	—	—	1,435	—	1,435
Gain on revaluation of prepaid lease payments	—	—	—	—	—	—	52,730	—	52,730
Deferred tax liabilities in respect of revaluations	—	—	—	—	—	—	(13,541)	—	(13,541)
Loss for the year	—	—	—	—	—	—	—	(18,058)	(18,058)
Total comprehensive income (expense) for the year	—	—	—	—	—	—	40,624	(18,058)	22,566

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2010

	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	Property revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Reduction of share capital upon capital reorganisation <i>(see note 29(e))</i>	(6,608)	—	—	—	6,608	—	—	—	—
Reduction of share premium upon capital reorganisation <i>(see note 29(e))</i>	—	(369,309)	—	—	369,309	—	—	—	—
Set-off of contributed surplus against accumulated losses <i>(see note 29(e))</i>	—	—	—	—	(76,909)	—	—	76,909	—
Rights issue of shares <i>(see note 29(f))</i>	2,937	108,669	—	—	—	—	—	—	111,606
Transaction costs attributable to issue of new shares	—	(769)	—	—	—	—	—	—	(769)
At 31 March 2010	3,671	107,900	—	53,194	299,722	21,178	40,624	(36,306)	489,983

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 and October 2009, part of which was applied to set off against accumulated losses of the Company in October 2009. The balance may 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 STATEMENT OF CASH FLOWS

For the year ended 31 March 2010

	2010 HK\$'000	2009 HK\$'000
Operating activities		
Loss for the year	(18,058)	(47,457)
Adjustments for:		
Income tax recognised in profit or loss	1,221	1,252
Interest income	(163)	(1,574)
Interest expense	—	475
Depreciation	2,274	3,936
Amortisation of prepaid lease payments	833	880
Amortisation of intangible asset	260	—
Allowance for (write back of allowance for) inventories	973	(6)
(Write back of allowance for) allowance for doubtful debts	(57)	3,793
Gain on fair value changes of investments held for trading	(119)	(344)
Dividend income from listed investments	(107)	—
Impairment loss recognised in respect of property, plant and equipment	2,654	23,594
Impairment loss recognised in respect of deposits for acquisition of property, plant and equipment	38	—
(Gain) loss on disposal of property, plant and equipment	(1,159)	7
Gain arising on changes in fair value of investment properties	(1,189)	—
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(12,599)	(15,444)
Decrease (increase) in inventories	4,760	(184)
Decrease (increase) in trade and other receivables	43,952	(24,507)
Increase in bills receivable	(151)	—
Decrease (increase) in investments held for trading	220	(3,712)
Decrease in trade and other payables	(9,727)	(2,268)
Decrease in bills payable	(2,772)	(79)
	<hr/>	<hr/>
Cash from (used in) operations	23,683	(46,194)
Dividend received from investments held for trading	107	—
	<hr/>	<hr/>
Net cash from (used in) operating activities	23,790	(46,194)
	<hr/>	<hr/>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2010

	<i>NOTE</i>	2010 HK\$'000	2009 HK\$'000
Investing activities			
Decrease (increase) in pledged bank deposits		10,000	(10,000)
Proceeds from disposal of property, plant and equipment		5,383	—
Deposit received for disposal of the Repurchased Lands		3,410	—
Interest received		163	1,574
Purchase of investment properties		(96,822)	—
Acquisition of subsidiaries	31	(82,492)	—
Purchase of property, plant and equipment		(1,115)	(29,534)
Purchase of land use rights		(116)	(136)
		<hr/>	<hr/>
Net cash used in investing activities		(161,589)	(38,096)
		<hr/>	<hr/>
Financing activities			
Net proceeds from issue of new shares		110,837	99,441
Interest paid		—	(61)
		<hr/>	<hr/>
Net cash from financing activities		110,837	99,380
		<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents		(26,962)	15,090
Cash and cash equivalents at beginning of the year		154,870	139,753
Effect of foreign exchange rate changes		4	27
		<hr/>	<hr/>
Cash and cash equivalents at end of the year, represented by bank balances and cash		127,912	154,870
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

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 consolidated financial statements are presented in Hong Kong dollars (“HK\$” or “HKD”) which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of the subsidiaries are set out in note 36.

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 and revised Standards, Amendments and Interpretations (“INTs”) (collectively “new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 April 2009.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) - INT 13	Customer loyalty programmes
HK(IFRIC) - INT 15	Agreements for the construction of real estate
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) - INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) “Presentation of financial statements”

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

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 8).

Improving disclosures about financial instruments (Amendments to HKFRS 7 “Financial instruments: Disclosures”)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

New and revised HKFRSs in issue but not yet effective

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 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKFRSs (Amendments)	Improvements to HKFRSs 2010 ³
HKAS 24 (Revised)	Related party disclosures ⁶
HKAS 27 (Revised)	Consolidated and separate financial statements ¹
HKAS 32 (Amendment)	Classification of rights issues ⁵
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters ⁴
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters ⁶
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions ⁴
HKFRS 3 (Revised)	Business combinations ¹
HKFRS 9	Financial instruments ⁸
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement ⁶
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners ¹
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments ⁷

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

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

New and revised HKFRSs in issue but not yet effective – continued

- 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 and 1 January 2010, as appropriate.
- ³ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
- ⁴ Effective for annual periods beginning on or after 1 January 2010.
- ⁵ Effective for annual periods beginning on or after 1 February 2010.
- ⁶ Effective for annual periods beginning on or after 1 July 2010.
- ⁷ Effective for annual periods beginning on or after 1 January 2011.
- ⁸ Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting 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 a parent's ownership interest in a subsidiary.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. This Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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 consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of consolidation

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

GOODWILL

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the assets' (or disposal groups') previous carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 is 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.

If an item of property, plant and equipment, including the leasehold land presented as prepaid lease payments, becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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 profit or loss in the period in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 at their fair values 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 profit or loss in the period in which the item is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories for the bleaching and dyeing, and knitting businesses is calculated using the weighted average method. Cost of inventories of the garment sourcing and exporting business is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 or 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 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 net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

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 excludes 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. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, 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 the end of the 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 affected.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Impairment of financial assets – continued

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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity instruments – continued

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.

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 in other comprehensive income 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 losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense 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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

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 the respective 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 retranslation 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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (exchange reserve).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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 when employees have rendered services entitling them to the contribution.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

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 2010, the carrying amount of property, plant and equipment is HK\$1,363,000 (2009: HK\$106,999,000).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has 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 2010, the carrying amount of goodwill is HK\$39,313,000 (2009: nil). Details of the recoverable amount calculation are disclosed in note 19.

Estimated impairment of intangible asset

Determining whether intangible asset is impaired requires an estimation of the value in use of the cash-generating units to which intangible asset has 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 2010, the carrying amount of intangible asset is HK\$24,740,000 (2009: nil). Details of the recoverable amount calculation are disclosed in note 20.

Amortisation of intangible asset

Intangible asset is amortised on a straight-line basis over its estimated useful life. Management estimates that the useful life of the intangible asset is 8 years, with reference to the attrition rate estimated by an independent valuer. The carrying amount of the Group's intangible asset at 31 March 2010 is HK\$24,740,000 (2009: nil).

Changes in the expected level of customer attrition could impact the economic useful life and the carrying amount of the intangible asset, and therefore future amortisation charges could be revised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

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, cash and cash equivalents and equity attributable to owners 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

	2010 HK\$'000	2009 HK\$'000
Financial assets		
Investments held for trading	3,955	4,056
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables	32,523	64,136
Bills receivable	26,266	—
Pledged bank deposits	—	10,000
Bank balances and cash	127,912	154,870
	<u>190,656</u>	<u>233,062</u>
Financial liabilities		
Amortised cost		
Trade and other payables	21,044	8,626
Bills payable	—	1,739
	<u>21,044</u>	<u>10,365</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

6. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies

The Group's major financial instruments include investments held for trading, trade and other receivables, bills receivable, pledged bank deposits, bank balances and cash, trade and other payables and bills payable. 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 Group have foreign currency sales or purchases denominated in currencies other than their functional currencies, which expose the Group to foreign currency risk. Approximately 95% of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale, whilst almost all purchases are denominated in the group entities' functional currency.

The carrying net amount of the group entities' foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period is as follows:

	Liabilities		Assets	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Renminbi ("RMB")	731	2,283	4,075	2,474
HKD	—	—	258	4,731
United States dollars ("USD")	107	1,739	59,781	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

6. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

Market risk – continued

(ii) Currency risk – continued

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	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Decrease (increase) in loss	<u>167</u>	<u>10</u>	<u>13</u>	<u>237</u>	<u>2,984</u>	<u>(87)</u>

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.

6. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

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 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In view of the nature of business, the Group targets on a focused market. As at 31 March 2010, the Group has concentration of credit risk in the trade receivables balance amounting to HK\$7,162,000 (2009: HK\$44,792,000) 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 2010, the Group has available unutilised bank loan facilities of HK\$50,000,000 (2009: HK\$8,261,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

6. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables

	Effective interest rate %	Less than 3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
2010					
Non-derivative financial liabilities					
Trade and other payables	—	20,982	62	21,044	21,044
2009					
Non-derivative financial liabilities					
Trade and other payables	—	8,460	166	8,626	8,626
Bills payable	—	1,739	—	1,739	1,739
		10,199	166	10,365	10,365

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

6. FINANCIAL INSTRUMENTS – CONTINUED

c. Fair value – continued

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2010

Financial assets at fair value through profit or loss

Investments held for trading

**Level 1
and total
HK\$'000**

3,955

7. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods sold, net of discounts and sales related taxes, and rental income received and receivable during the year. An analysis of the Group's turnover from its continuing operations is as follows:

	2010	2009
	HK\$'000	HK\$'000
Sales of goods	28,888	—
Rental income	2,322	—
	31,210	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

8. 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, being 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. In previous years, the Group’s primary reporting format was business segments comprising the two main operating divisions - bleaching and dyeing, and knitting. All of the Group’s operations relating to bleaching and dyeing, and knitting were discontinued during the year (see note 13(a)), accordingly, no segment information in respect of the comparative period is presented.

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 (gain arising on changes in fair value of investment properties, gain on fair value changes of investments held for trading, corporate income and expenses and finance costs) are not included in arriving at the segment results of the operating segments.

The Group’s operating and reportable segments from continuing operations under HKFRS 8 are: (a) garment sourcing and exporting and (b) property investment. Garment sourcing and exporting segment is a new operating segment in current year through the acquisition of subsidiaries in current year as set out in note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

8. SEGMENT INFORMATION – CONTINUED

Segment revenue and results

The following is an analysis of the Group's revenue and results from its continuing operations by reportable segment:

For the year ended 31 March 2010

Continuing operations:

	Garment sourcing and exporting HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover				
External	<u>28,888</u>	<u>2,322</u>	<u>—</u>	<u>31,210</u>
Segment result	<u>288</u>	<u>954</u>	<u>—</u>	1,242
Other income				311
Other expenses				(2,068)
Gain arising on changes in fair value of investment properties				1,189
Gain on fair value changes of investments held for trading				119
Unallocated corporate expenses				<u>(9,241)</u>
Loss before taxation (continuing operations)				<u>(8,448)</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the result incurred by each segment without allocation of gain arising on changes in fair value of investment properties, gain on fair value changes of investments held for trading, corporate income and expenses and finance costs. This is the measure reported to the chief executive officer, the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

8. SEGMENT INFORMATION – CONTINUED

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	2010 HK\$'000
Segment assets	
Continuing operations:	
Garment sourcing and exporting	102,595
Property investment	255,720
	<hr/>
Total segment assets	358,315
Assets relating to discontinued operations	36,834
Unallocated	153,644
	<hr/>
Consolidated assets	548,793
	<hr/> <hr/>
Segment liabilities	
Continuing operations:	
Garment sourcing and exporting	19,784
Property investment	2,830
	<hr/>
Total segment liabilities	22,614
Unallocated	36,196
	<hr/>
Consolidated liabilities	58,810
	<hr/> <hr/>

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than investments held for trading and assets used jointly by reportable segments.
- all liabilities are allocated to reportable segments other than current and deferred tax liabilities and liabilities for which reportable segments are jointly liable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

8. SEGMENT INFORMATION – CONTINUED

Other segment information

For the year ended 31 March 2010

Continuing operations:

	Garment sourcing and exporting HK\$'000	Property investment HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	—	97,710	—	97,710
Amortisation	260	—	49	309
Depreciation	40	39	1,451	1,530
Loss on disposal of property, plant and equipment	—	—	1,807	1,807
	<u>—</u>	<u>—</u>	<u>1,807</u>	<u>1,807</u>

Geographical information

The Group's operations are located in Hong Kong and the PRC.

The Group's revenue from continuing operations from external customers based on the location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers 2010 HK\$'000	Non-current assets 2010 HK\$'000
Hong Kong	1,772	164,395
PRC	550	156,184
The United States of America	28,888	—
	<u>31,210</u>	<u>320,579</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

8. SEGMENT INFORMATION – CONTINUED

Information about major customers

Revenue from continuing operations from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2010 HK\$'000
Customer A ¹	<u>25,373</u>

¹Revenue from garment sourcing and exporting

9. FINANCE COSTS

	2010 HK\$'000	2009 HK\$'000
Continuing operations:		
Imputed interest on convertible note	<u>—</u>	<u>475</u>

In March 2008, the Company issued to an independent third party a convertible note at its par value of HK\$37,650,000. The note entitled 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. If the convertible note has not been converted, it shall be redeemed on 11 March 2009 at par. Interest of 1% per annum shall be paid semi-annually in arrears up until the settlement date.

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

During April to June 2008, the convertible note was fully converted into new ordinary shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

Details of emoluments to the directors of the Company for the year ended 31 March 2010 are as follows:

	Kwong Jimmy Cheung Tim HK\$'000	Lui Yuk Chu HK\$'000	Tse Wing Chiu, Ricky HK\$'000	Kan Ka Hon HK\$'000	Lau Sin Ming HK\$'000	Foo Tak Ching HK\$'000	Total HK\$'000
Fees	—	—	100	100	100	100	400
Other emoluments – Salaries and other benefits	840	1,340	—	—	—	—	2,180
Total directors' emoluments	840	1,340	100	100	100	100	2,580

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – CONTINUED

(b) Information regarding employees' emoluments

The five highest paid individuals of the Group included two (2009: two) directors whose emoluments were included above. The emoluments of the remaining three (2009: three) highest paid individuals, not being directors, are as follows:

	2010 HK\$'000	2009 HK\$'000
Salaries and other benefits	1,048	1,237
Retirement benefits costs	35	39
	<u>1,083</u>	<u>1,276</u>

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

During both years, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

11. TAXATION

	2010	2009
	HK\$'000	HK\$'000
Continuing operations:		
The charge comprises:		
Hong Kong Profits Tax		
– current year	—	45
– underprovision in prior years	10	—
	<hr/>	<hr/>
	10	45
Deferred tax (<i>note 28</i>)	579	—
	<hr/>	<hr/>
	589	45
	<hr/> <hr/>	<hr/> <hr/>

No provision for Hong Kong Profits Tax has been made in the current year as the Company and its subsidiaries have no assessable profit for the year.

Hong Kong Profits Tax for the year ended 31 March 2009 was calculated at 16.5% of the estimated assessable profit for that year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

	2010	2009
	HK\$'000	HK\$'000
Loss before taxation (from continuing operations)	(8,448)	(24,680)
	<hr/>	<hr/>
Tax credit at the applicable rate of 16.5% (2009: 16.5%)	(1,394)	(4,072)
Tax effect of income not taxable for tax purposes	(53)	(228)
Tax effect of expenses not deductible for tax purposes	3,410	4,355
Underprovision in respect of prior years	10	—
Tax effect of tax losses not recognised	132	—
Tax effect of utilisation of tax losses previously not recognised	(1,515)	—
Others	(1)	(10)
	<hr/>	<hr/>
Tax charge for the year	589	45
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

12. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

	2010 HK\$'000	2009 HK\$'000
Loss for the year from continuing operations has been arrived at after charging:		
Directors' remuneration (<i>note 10(a)</i>)	2,580	2,450
Other staff costs, including retirement benefits costs	1,817	1,088
Total staff costs	<u>4,397</u>	<u>3,538</u>
Amortisation of intangible asset (included in administrative expenses)	260	—
Amortisation of prepaid lease payments	49	98
Auditor's remuneration	548	527
Cost of inventories recognised as an expense	25,856	—
Depreciation	1,530	355
Exchange loss, net	18	291
Loss on disposal of property, plant and equipment	1,807	—
and after crediting:		
Dividend income from listed investments	107	—
Interest income	144	1,430
	<u>144</u>	<u>1,430</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

13. DISCONTINUED OPERATIONS

- (a) On 22 November 2009, the directors resolved to cease the bleaching and dyeing, and knitting businesses and these businesses were substantially ceased in December 2009. The results of the discontinued operations included in the consolidated statement of comprehensive income and consolidated statement of cash flows are set out below. The comparative loss and cash flows from discontinued operations have been re-presented to include operations classified as discontinued in the current year. The re-presentation in the consolidated statement of comprehensive income for the prior year has had no impact on the consolidated statement of financial position at the beginning of the earliest comparative period and hence the consolidated statement of financial position at the beginning of the earliest comparative period is not presented.

	2010	2009
	HK\$'000	HK\$'000
Loss for the year from discontinued operations		
Revenue from		
Bleaching and dyeing		
– sales of goods	17,328	55,886
– service income	2,838	3,993
	20,166	59,879
Knitting services	1,009	81
	21,175	59,960
Cost of sales and services	(24,311)	(61,581)
Gross loss	(3,136)	(1,621)
Other income	3,929	329
Distribution and selling expenses	(199)	(568)
Administrative expenses	(6,386)	(7,336)
Write back of allowance for (allowance for) doubtful debts	57	(3,793)
Impairment loss recognised in respect of property, plant and equipment	(2,654)	(8,536)
Loss before taxation	(8,389)	(21,525)
Taxation	(632)	(1,207)
Loss for the year from discontinued operations	(9,021)	(22,732)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

13. DISCONTINUED OPERATIONS – CONTINUED

	2010 HK\$'000	2009 HK\$'000
Loss for the year from discontinued operations includes the following:		
Redundancy costs	685	—
Other staff costs, including retirement benefits costs	3,681	6,564
Total staff costs	4,366	6,564
Amortisation of prepaid lease payments	784	782
Auditor's remuneration	393	596
Cost of inventories recognised as an expense	16,249	49,371
Depreciation	744	3,582
Exchange loss, net	208	65
(Gain) loss on disposal of property, plant and equipment	(2,966)	7
Government grants received	(464)	—
Interest income	(19)	(144)
Write-back of allowance for inventories	—	(6)
Other information:		
Capital additions	227	64
	2010 HK\$'000	2009 HK\$'000
Cash flows from discontinued operations		
Net cash flows from (used in) operating activities	30,592	(25,931)
Net cash flows from (used in) investing activities	16,228	(8,754)
Net cash flows (used in) from financing activities	(43,866)	32,158
Net cash inflows (outflows)	2,954	(2,527)

The major class of assets of the bleaching and dyeing, and knitting operations as at 31 March 2010, which has been presented separately in the consolidated statement of financial position, is as follows:

	31 March 2010 HK\$'000
Property, plant and equipment, being assets classified as held for sale	217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

13. DISCONTINUED OPERATIONS – CONTINUED

- (b) On 1 March 2010, the Group entered into an agreement with the People’s Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the PRC (the “Zhili Town Government”) for the disposal of three parcels of land in Zhili Town (the “Repurchased Lands”). The Repurchased Lands were acquired several years ago as part of the Huzhou Project (see note 16).

Cost of acquiring the Repurchased Lands and the related expenditure were included in “prepaid lease payments”. The carrying value of the Repurchased Lands as at 31 March 2010, which has been presented separately in the consolidated statement of financial positions, is as follows:

	31 March 2010 HK\$’000
Prepaid lease payments, being assets classified as held for sale	<u><u>36,617</u></u>

14. BASIC LOSS PER SHARE

From continuing and discontinued operations:

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	2010 HK\$’000	2009 HK\$’000
Loss for the purpose of basic loss per share	<u><u>(18,058)</u></u>	<u><u>(47,457)</u></u>
Number of shares	2010	2009
Weighted average number of ordinary shares for the purpose of basic loss per share	<u><u>200,912,869</u></u>	<u><u>24,080,486</u></u>

From continuing operations:

The calculation of the basic loss per share from continuing operations attributable to owners of the Company is based on the following data:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

14. BASIC LOSS PER SHARE – CONTINUED

Loss figures are calculated as follows:

	2010 HK\$'000	2009 HK\$'000
Loss for the year attributable to owners of the Company	(18,058)	(47,457)
Add: Loss for the year from discontinued operation	<u>9,021</u>	<u>22,732</u>
Loss for the purpose of basic loss per share from continuing operations	<u><u>(9,037)</u></u>	<u><u>(24,725)</u></u>
	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u><u>200,912,869</u></u>	<u><u>24,080,486</u></u>

The denominator for the purpose of calculating basic loss per share for the year ended 31 March 2009 has been adjusted to reflect the consolidation of shares in October 2009 on the basis of 10 shares consolidated into one share and the rights issue in November 2009 on the basis of four rights shares for every ordinary share.

No diluted loss per share for both years is presented as there were no potential ordinary shares outstanding for both years.

From discontinued operation:

Basic loss per share for the discontinued operation is HK\$0.045 per share (2009: HK\$0.944 per share), based on the loss for the year from discontinued operations of HK\$9,021,000 (2009: HK\$22,732,000) and the denominators detailed above for basic loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

15. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

- (a) During the year, the Group had the following transactions with wholly-owned subsidiaries of Easyknit International Holdings Limited ("Easyknit International"):

	2010	2009
	HK\$'000	HK\$'000
Sales of garments	999	—
Administrative service fee expense	220	240
Rental expense	213	—
	<u><u> </u></u>	<u><u> </u></u>

At the end of the reporting period, amounts due from these entities comprise:

	2010	2009
	HK\$'000	HK\$'000
Trade receivables	7,162	—
	<u><u> </u></u>	<u><u> </u></u>

Ms. Lui Yuk Chu, a director of the Company, had 36.74% equity interest in Easyknit International at 31 March 2010 and the Company is itself an associate of Easyknit International.

During the year, the Group entered into an agreement with Easyknit Properties Holdings Limited for the acquisition of the entire issued share capital of three of its wholly-owned subsidiaries for a consideration of HK\$80 million. Easyknit Properties Holdings Limited, being vendor of this transaction, is a wholly-owned subsidiary of Easyknit International. Details of this transaction are set out in note 31.

- (b) During the year, the Company entered into a consultancy agreement with Mr. Koon Wing Yee for consultancy services provided by Mr. Koon Wing Yee to the Group for a fee of HK\$498,000 per annum which shall be payable in arrears by twelve monthly instalments of HK\$41,500 each. The consultancy agreement is for a period of one year commencing on 15 January 2010 but may be terminated by either party at any time by one month's notice. Mr. Koon Wing Yee is the spouse of Ms. Lui Yuk Chu. Consultancy fee paid and payable to Mr. Koon Wing Yee during the year amounted to HK\$103,750.
- (c) Compensation of key management personnel

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

	2010	2009
	HK\$'000	HK\$'000
Short-term employee benefits	2,784	2,827
	<u><u> </u></u>	<u><u> </u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST						
At 1 April 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)
At 31 March 2009	101,144	26,047	2,894	2,063	15,325	147,473
Additions	881	227	7	—	—	1,115
Acquired on acquisition of subsidiaries	—	—	345	796	—	1,141
Fair value change on revaluation upon reclassification of assets to investment properties	(254)	—	—	—	—	(254)
Reclassified to investment properties	(99,957)	—	—	—	—	(99,957)
Reclassified to assets classified as held for sale	—	(4,975)	(1,514)	(684)	(267)	(7,440)
Disposal	(1,814)	(21,299)	(1,309)	(158)	—	(24,580)
At 31 March 2010	—	—	423	2,017	15,058	17,498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

16. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
DEPRECIATION AND IMPAIRMENT						
At 1 April 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 profit or loss	—	7,836	201	232	15,325	23,594
Eliminated on disposal	—	—	(48)	—	—	(48)
At 31 March 2009	281	20,416	2,826	1,626	15,325	40,474
Exchange adjustments	1	—	—	—	—	1
Provided for the year	1,413	576	65	220	—	2,274
Impairment loss recognised in profit or loss	—	2,649	5	—	—	2,654
Eliminated on revaluation	(1,689)	—	—	—	—	(1,689)
Reclassified to assets classified as held for sale	—	(4,758)	(1,514)	(684)	(267)	(7,223)
Eliminated on disposal	(6)	(18,883)	(1,309)	(158)	—	(20,356)
At 31 March 2010	—	—	73	1,004	15,058	16,135
CARRYING VALUES						
At 31 March 2010	—	—	350	1,013	—	1,363
At 31 March 2009	100,863	5,631	68	437	—	106,999

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

16. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

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 ended 31 March 2009, 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 was recognised in profit or loss during the year ended 31 March 2009; and
- (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 (equivalent to HK\$17,967,000) is disclosed as a current asset at 31 March 2010 and 2009 under trade and other receivables (see note 22).

Prepaid lease payments in respect of the Huzhou Project are disclosed in note 17.

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

During the year ended 31 March 2010, the Group started to lease out the completed buildings for the Huzhou Project for rental income. The buildings and the corresponding prepaid lease payments were transferred to investment properties and measured at the fair value at the date of transfer accordingly. The fair value of the buildings at the date of transfer to investment properties is HK\$99,957,000. The gain on revaluation, amounting to HK\$1,435,000 is credited to the property revaluation reserve directly. Details of the valuation are set out in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

16. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

During the year ended 31 March 2009, 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 these assets were impaired, due to the continuous operating loss of the Group. Impairment losses of HK\$7,836,000, HK\$201,000, HK\$232,000 and HK\$267,000 respectively were recognised in profit or loss in respect of plant and machinery, furniture, fixtures and equipment, motor vehicles and construction in progress, which were used in the Group's bleaching and dyeing segment. The recoverable amounts of the relevant assets were 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 segments' manufacturing assets.

During the year ended 31 March 2010, the directors conducted a review of the Group's manufacturing assets used in the knitting segment, and determined that a number of these assets were impaired due to the discontinued operation of the knitting segment. Impairment losses of HK\$2,649,000 and HK\$5,000 have been recognised in profit or loss in respect of plant and machinery, and furniture, fixtures and equipment. The recoverable amounts of the relevant assets have been determined on the basis of fair value less costs to sell.

The bleaching and dyeing, and knitting segments ceased to operate during the year ended 31 March 2010. The relevant property, plant and equipment are reclassified as assets classified as held for sale (see note 13(a)).

17. PREPAID LEASE PAYMENTS

	2010	2009
	HK\$'000	HK\$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC		
Medium-term lease	—	41,802
	<u> </u>	<u> </u>
Analysed for reporting purposes as:		
Current asset	—	881
Non-current asset	—	40,921
	<u> </u>	<u> </u>
	—	41,802
	<u> </u>	<u> </u>

As set out in note 16, prepaid lease payments in respect of the completed buildings for the Huzhou were revalued and transferred to investment properties.

The fair value of the prepaid lease payments at the date of transfer to investment properties is HK\$57,197,000. The gain on revaluation, amounting to HK\$52,730,000, is credited to the property revaluation reserve directly. Details of the valuation are set out in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

17. PREPAID LEASE PAYMENTS – CONTINUED

As set out in note 13(b), the Repurchased Lands with a carrying value of HK\$36,617,000 at 31 March 2010 are reclassified as assets classified as held for sale.

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

18. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
At 1 April 2008 and 31 March 2009	—
Additions	96,822
Reclassified from property, plant and equipment	99,957
Reclassified from prepaid lease payments	57,197
Increase in fair value	1,189
Currency re-alignment	(2)
	<u> </u>
At 31 March 2010	<u><u>255,163</u></u>

The carrying value of investment properties shown above comprises properties situated on:

	2010 HK\$'000	2009 HK\$'000
Land in Hong Kong		
Long lease	99,000	—
Land in the PRC		
Medium-term lease	156,163	—
	<u> </u>	<u> </u>
	<u><u>255,163</u></u>	<u><u> </u></u>

The fair values of the Group's investment properties in Hong Kong at 31 March 2010 have been arrived at on the basis of a valuation carried out on that day by Knight Frank Petty Limited, a firm of independent qualified professional property valuers not connected with the Group. Knight Frank Petty Limited are members of the Hong Kong Institute of Surveyors. The valuation of investment properties in Hong Kong was arrived at by reference to market evidence of transaction prices for similar properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

18. INVESTMENT PROPERTIES – CONTINUED

The fair values of the Group's investment properties in the PRC at the date of transfer from property, plant and equipment, and prepaid lease payments and at 31 March 2010 have been arrived at on the basis of a valuation carried out on those days by Merryshine Surveyors Limited, a firm of independent qualified professional property valuers not connected with the Group. Merryshine Surveyors Limited are members of the Hong Kong Institute of Surveyors. The valuation of the investment properties in the PRC was arrived at by combining (a) the market value of the land portion of the properties with reference to market evidence of transaction prices for land nearby and (b) depreciated replacement cost of the buildings and structures.

All of the Group's leasehold interests in land held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

19. GOODWILL

	HK\$'000
COST	
At 1 April 2008 and 31 March 2009	—
Arising on acquisition of subsidiaries	39,313
	<hr/>
At 31 March 2010	39,313
	<hr/>
IMPAIRMENT	
At 1 April 2008, 31 March 2009 and 31 March 2010	—
	<hr/>
CARRYING VALUES	
At 31 March 2010	39,313
	<hr/> <hr/>
At 31 March 2009	—
	<hr/> <hr/>

For the purpose of impairment testing during the year ended 31 March 2010, goodwill set out above has been allocated to a cash-generated unit ("CGU") in garment sourcing and exporting. During the year ended 31 March 2010, the management of the Group assessed the recoverable amount of the cash-generating unit with reference to the value in use and determined that no impairment was required.

The recoverable amount has been determined based on a value in use calculation. This calculation uses cash flow projections based on financial budgets approved by management covering a 1-year period and a discount rate of 13%. Cash flows beyond the 1-year period has been extrapolated using a 3% growth rate. 3% growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectations for the market development. Management of the Group determined that there was no impairment of goodwill allocated to the CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

20. INTANGIBLE ASSET

	Customer relationship HK\$'000
COST	
At 1 April 2008 and 31 March 2009	—
Acquisition of subsidiaries	25,000
	<hr/>
At 31 March 2010	25,000
	<hr/>
AMORTISATION	
At 1 April 2008 and 31 March 2009	—
Charge for the year	260
	<hr/>
At 31 March 2010	260
	<hr/>
CARRYING VALUES	
At 31 March 2010	24,740
	<hr/> <hr/>
At 31 March 2009	—
	<hr/> <hr/>

The customer relationship has a finite useful life and is amortised on a straight-line basis over 8 years. The useful life of the customer relationship is determined with reference to the estimated future revenue from the customer relationship with a customer attrition rate of 5% which is based on historical customer turnover information. The management is of the view that the future economic benefits that can be derived from the customer relationship beyond the 8-year period are insignificant.

The fair value of the customer relationship at the date of business combination was measured using a form of the excess earnings method under the income approach. This calculation is based on the present value of the incremental after-tax cash flows attributable to the customer relationship and a discount rate of 13%. The annual cash flow is calculated by reference to the latest applicable annual revenue from existing customers with an attrition rate of 5% and has been extrapolated using a 3% growth rate. The 3% growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. At the date of the business combination, the fair value of the customer relationship amounted to HK\$25,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

21. INVENTORIES

	2010	2009
	HK\$'000	HK\$'000
Raw materials	11	5,319
Work-in-progress	—	591
Finished goods	264	98
	<hr/>	<hr/>
	275	6,008
	<hr/> <hr/>	<hr/> <hr/>

22. TRADE AND OTHER RECEIVABLES

	2010	2009
	HK\$'000	HK\$'000
Trade receivables	14,019	50,933
Less: Allowance for doubtful debts	—	(5,038)
	<hr/>	<hr/>
	14,019	45,895
Prepayments	449	210
Refundable deposit in respect of construction of property, plant and equipment (<i>see note 16</i>)	17,967	17,967
Other receivables	537	274
	<hr/>	<hr/>
	32,972	64,346
	<hr/> <hr/>	<hr/> <hr/>

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:

	2010	2009
	HK\$'000	HK\$'000
0 - 60 days	6,417	15,259
61 - 90 days	929	2,905
Over 90 days	6,673	27,731
	<hr/>	<hr/>
	14,019	45,895
	<hr/> <hr/>	<hr/> <hr/>

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.

During the year, the Group renegotiated with the Zhili Town Government and the Zhili Town Government agreed that the refundable deposit will be repaid to the Group by 1 September 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

22. TRADE AND OTHER RECEIVABLES – CONTINUED

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK\$7,892,000 (2009: HK\$30,688,000) 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:

	2010 HK\$'000	2009 HK\$'000
Over due by 1 to 60 days	3,888	8,971
Over due by 61 to 90 days	392	5,470
Over due by over 90 days	3,612	16,247
	<u>7,892</u>	<u>30,688</u>

Movement in the allowance for doubtful debts:

	2010 HK\$'000	2009 HK\$'000
Balance at beginning of the year	5,038	1,245
Amounts written off as uncollectible	(4,981)	—
Impairment losses recognised on receivables	—	4,556
Amounts recovered during the year	(57)	(763)
	<u>—</u>	<u>5,038</u>

Included in the allowance for doubtful debts at 31 March 2009 were individually impaired trade receivables with an aggregate balance of HK\$5,038,000 (2010: nil) which were either placed under liquidation or in serve financial difficulties. The Group does not hold any collateral over these balances.

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

The Group's trade and other receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2010 HK\$'000	2009 HK\$'000
USD	<u>8,306</u>	<u>—</u>
RMB	<u>568</u>	<u>1,493</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

23. BILLS RECEIVABLE

At 31 March 2010, the bills receivable are aged within 90 days.

The Group's bills receivable that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2010 HK\$'000	2009 HK\$'000
USD	<u>26,266</u>	<u>—</u>

24. 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.

25. BANK BALANCES AND CASH

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 0.001% to 1% (2009: 0.01% to 3.775%) per annum.

Pledged bank deposits at 31 March 2009 represented deposits pledged to banks to secure banking facilities granted to the Group. The pledged deposits carried fixed interest rate ranging from 0.001% to 2.5% per annum. The pledged bank deposits were released in the current year upon expiry of the granted banking facilities.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2010 HK\$'000	2009 HK\$'000
HKD	<u>258</u>	<u>4,731</u>
RMB	<u>3,431</u>	<u>750</u>
USD	<u>25,209</u>	<u>—</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

26. TRADE AND OTHER PAYABLES

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

	2010 HK\$'000	2009 HK\$'000
0 - 60 days	18,861	7,201
61 - 90 days	11	880
Over 90 days	228	45
Trade payables	19,100	8,126
Rental deposits received	1,214	—
Accruals	8,187	15,106
Deposit received for disposal of the Repurchased Lands (see note 13(b))	3,410	—
Other payables	1,944	500
	<u>33,855</u>	<u>23,732</u>

The average credit period on purchases of goods is 30 days.

The Group's trade and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2010 HK\$'000	2009 HK\$'000
USD	107	—
RMB	731	2,283

27. BILLS PAYABLE

At 31 March 2009, the bills payable were aged within 30 days.

The Group's bills payable that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2010 HK\$'000	2009 HK\$'000
USD	—	1,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

28. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, the deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2010	2009
	HK\$'000	HK\$'000
Deferred tax assets	149	—
Deferred tax liabilities	(18,394)	—
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	(18,245)	—
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Revaluation of properties	Intangible asset	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008 and 31 March 2009	—	—	—	—
Acquisition of subsidiaries	—	(4,125)	—	(4,125)
Charge to other comprehensive income for the year	(13,541)	—	—	(13,541)
(Charge) credit to profit or loss for the year	(771)	43	149	(579)
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
At 31 March 2010	(14,312)	(4,082)	149	(18,245)
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

At 31 March 2010, deductible temporary differences in respect of tax losses not recognised in the consolidated financial statements were HK\$22,799,000 (2009: HK\$5,205,000). No deferred tax asset has been recognised in respect of such deductible temporary differences due to the unpredictability of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

29. SHARE CAPITAL

	Notes	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 April 2008		0.01	20,000,000,000	200,000
Reduction of share capital	(c)(ii)		—	(198,000)
		0.0001	20,000,000,000	2,000
Consolidation of shares	(c)(iii)		(19,800,000,000)	—
		0.01	200,000,000	2,000
Increase in new consolidated shares	(c)(iv)	0.01	19,800,000,000	198,000
At 31 March 2009 and 31 March 2010		0.01	20,000,000,000	200,000
Issued and fully paid:				
At 1 April 2008		0.01	5,890,612,860	58,906
On conversion of convertible note	(a)	0.01	784,375,000	7,843
		0.01	6,674,987,860	66,749
Exercise of share options	(b)	0.01	2,140	—
			6,674,990,000	66,749
Reduction of share capital	(c)(i)		—	(66,082)
		0.0001	6,674,990,000	667
Consolidation of shares	(c)(iii)		(6,608,240,100)	—
		0.01	66,749,900	667
Rights issue of shares	(d)	0.01	667,499,000	6,675
At 31 March 2009		0.01	734,248,900	7,342
Reduction of share capital	(e)(i)		—	(6,608)
		0.001	734,248,900	734
Consolidation of shares	(e)(ii)		(660,824,010)	—
		0.01	73,424,890	734
Rights issue of shares	(f)	0.01	293,699,560	2,937
At 31 March 2010		0.01	367,124,450	3,671

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

29. SHARE CAPITAL – CONTINUED

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 day.
- (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 ("2008 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 2008 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 "2008 Capital Reorganisation". Details of the 2008 Capital Reorganisation are set out, inter alia, in the circular of the Company dated 29 August 2008. A special resolution approving the 2008 Capital Reorganisation was passed at the special general meeting of the Company held on 22 September 2008. The 2008 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 Huzhou Project and for general working capital use.
- (e) As announced by the Company on 25 August 2009, the Company proposed to effect (i) reduction of the nominal value of each issued share 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 existing shares of HK\$0.001 each were 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 credit amount arising from the 2009 Issued Capital Reduction and Share Premium Reduction to the contributed surplus account of the Company, and the application of the appropriate amounts therein to set off against accumulated losses of the Company. The above are collectively referred to the "2009 Capital Reorganisation". Details of the 2009 Capital Reorganisation are set out, inter alia, in the circular of the Company dated 11 September 2009. A special resolution approving the 2009 Capital Reorganisation was passed at the special general meeting of the Company held on 13 October 2009. The 2009 Capital Reorganisation became effective on 14 October 2009.
- (f) On 3 November 2009, the Company allotted 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 share for every existing ordinary share held. The Company raised HK\$110,837,000 (net of expenses) with the intention at the time of rights issue to finance potential property acquisitions and for general working capital use.

All shares issued during the years ended 31 March 2009 and 2010 rank *pari passu* with the then existing shares in issue in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

30. SHARE OPTION SCHEME – CONTINUED

A summary of the movements of the Company's share options during the year ended 31 March 2009 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 2008 Capital Reorganisation which became effective on 23 September 2008 (see note 29(c)).
- (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 2010 and 31 March 2009.

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

31. ACQUISITION OF SUBSIDIARIES

As referred to in note 15(a) and set out in the circular of the Company dated 29 January 2010, the Group entered into an agreement with Easyknit Properties Holdings Limited, a wholly-owned subsidiary of Easyknit International, to acquire the entire issued share capital of each of Easyknit Global Company Limited, Easyknit Worldwide Company Limited and Grand Profit Development Limited (collectively the "Garment Trading Companies"), which are principally engaged in garment sourcing and exporting.

The transaction was completed on 1 March 2010 for a consideration of HK\$80,000,000 satisfied by cash. The acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK39,313,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

31. ACQUISITION OF SUBSIDIARIES – CONTINUED

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Garment Trading Companies' carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
Net assets acquired:			
Property, plant and equipment	1,141	—	1,141
Intangible asset	—	25,000	25,000
Trade and other receivables	12,521	—	12,521
Bills receivable	26,115	—	26,115
Bank balances and cash	415	—	415
Trade and other payables	(16,440)	—	(16,440)
Bills payable	(1,033)	—	(1,033)
Deferred tax liabilities	—	(4,125)	(4,125)
	<u>22,719</u>	<u>20,875</u>	<u>43,594</u>
Goodwill			<u>39,313</u>
			<u>82,907</u>
Represented by:			
Consideration, satisfied by cash			80,000
Direct expenses			2,907
			<u>82,907</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			(82,907)
Cash and cash equivalents acquired			415
			<u>(82,492)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

31. ACQUISITION OF SUBSIDIARIES – CONTINUED

The goodwill arising on acquisition is attributable to the anticipated future operating profits and growth of the business of the Garment Trading Companies after the business combination is consummated.

The Garment Trading Companies contributed a profit of HK\$331,000 to the Group's loss for the period between the date of acquisition and 31 March 2010.

If the acquisition has been completed on 1 April 2009, total group revenue for the year ended 31 March 2010 would have been HK\$401,686,000 and loss for the year would have been HK\$9,165,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2009, nor is it intended to be a projection of future results.

32. CAPITAL COMMITMENTS

	2010 HK\$'000	2009 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u>2,142</u>	<u>1,153</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2010 HK\$'000	2009 HK\$'000
Minimum lease payments recognised in profit or loss during the year	<u>1,904</u>	<u>1,598</u>

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

	2010 HK\$'000	2009 HK\$'000
Within one year	230	1,526
In the second to fifth year inclusive	—	3,413
Over five years	—	314
	<u>230</u>	<u>5,253</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 one 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.

As set out in note 13(a), the Group ceased the bleaching and dyeing, and knitting businesses during the year ended 31 March 2010. As such, the Group reached agreements with the respective lessors to early terminate leases of the premises occupied for these businesses. The Group paid HK\$314,000 during the year as compensation which is included in minimum lease payments above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

33. OPERATING LEASE ARRANGEMENTS – CONTINUED

The Group as lessor

	2010 HK\$'000	2009 HK\$'000
Property rental income earned during the year	2,322	—
Less: Outgoings	—	—
	<hr/>	<hr/>
Net rental income	<u>2,322</u>	<u>—</u>

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2010 HK\$'000	2009 HK\$'000
Within one year	3,246	—
In the second to fifth year inclusive	1,484	—
	<hr/>	<hr/>
	<u>4,730</u>	<u>—</u>

Under the leases entered into by the Group, the lease payments are fixed and no arrangements have been entered into for contingent rental payments. The properties held have committed tenants for terms of one to two years.

34. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

34. RETIREMENT BENEFITS SCHEMES – CONTINUED

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

	2010 HK\$'000	2009 HK\$'000
Employers' contributions recognised in profit or loss	<u>260</u>	<u>170</u>

At the end of the reporting period, there were no forfeited contributions available to reduce the contributions payable in the future years.

35. EVENT AFTER THE REPORTING PERIOD

On 23 April 2010, an ordinary resolution of the shareholders was passed at a special general meeting of the Company approving the disposal of the Repurchased Lands (see note 13(b)) for a consideration of RMB47,517,810 (equivalent to approximately HK\$54 million).

Details of the above and transactions contemplated under the relevant agreement are set out in the announcement and the circular of the Company dated 1 March 2010 and 31 March 2010, respectively.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 March 2010 and 31 March 2009 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
			2010		2009		
			Directly	Indirectly	Directly	Indirectly	
Easyknit (Mauritius) Limited	Republic of Mauritius/ Hong Kong	Stated US \$1	100%	—	100%	—	Investment holding
Chancemore Limited **	British Virgin Islands/ Hong Kong	Ordinary US \$1	—	100%	—	—	Property investment
Clever Wise Holdings Limited **	British Virgin Islands/ Hong Kong	Ordinary US \$1	—	100%	—	—	Property investment
Gainever Corporation Limited	Hong Kong	Ordinary HK \$2	—	100%	—	100%	Trading of marketable securities
Grand Profit Development Limited **	Hong Kong	Ordinary HK \$2	—	100%	—	—	Trading of garments
Easyknit Global Company Limited **	Hong Kong	Ordinary HK \$2	—	100%	—	—	Trading of garments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES – CONTINUED

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
			2010		2009		
			Directly	Indirectly	Directly	Indirectly	
Po Cheong International Enterprises Limited *	Hong Kong	Ordinary HK\$90	—	100%	—	100%	Investment holding
Tat Cheong International (HK) Limited *	Hong Kong	Ordinary HK\$2	—	100%	—	100%	Investment holding
東莞永耀漂染有限公司 ("Wing Yiu") ^{1*}	PRC	Registered HK\$11,260,000	—	100%	—	100%	Bleaching and dyeing
永義紡織 (河源) 有限公司 ("He Yuan") ^{2*}	PRC	Registered US\$1,000,000	—	100%	—	100%	Knitting
永義製衣 (湖州) 有限公司 ("Huzhou Garment") ³	PRC	Registered US\$14,634,274 (2009: US\$14,182,668)	—	100%	—	100%	Construction in progress of garment production plant for own use (suspended in 2009)/property investment in 2010
永義紡織 (湖州) 有限公司 ("Huzhou Knitting") ⁴	PRC	Registered US\$3,387,394 (2009: US\$3,313,846)	—	100%	—	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\$3,086,513 (2009: US\$3,009,110)	—	100%	—	100%	Construction in progress of bleaching and dyeing production plant for own use (suspended)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES – CONTINUED

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.
- * These subsidiaries ceased operations during the year ended 31 March 2010 and were not classified as principal subsidiaries at 31 March 2010.
- ** These subsidiaries were acquired during the year ended 31 March 2010.

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 2010 or 31 March 2009.

RESULTS

	Year ended 31 March				2010 HK\$'000
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	
Turnover	<u>58,039</u>	<u>75,964</u>	<u>74,923</u>	<u>59,960</u>	<u>52,385</u>
Loss before taxation	(32,857)	(9,909)	(14,979)	(46,205)	(16,837)
Taxation	<u>—</u>	<u>(1,572)</u>	<u>(2,832)</u>	<u>(1,252)</u>	<u>(1,221)</u>
Loss for the year and attributable to owners of the Company	<u>(32,857)</u>	<u>(11,481)</u>	<u>(17,811)</u>	<u>(47,457)</u>	<u>(18,058)</u>

ASSETS AND LIABILITIES

	At 31 March				2010 HK\$'000
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	
Total assets	185,541	204,879	333,349	388,119	548,793
Total liabilities	<u>(10,513)</u>	<u>(36,245)</u>	<u>(66,384)</u>	<u>(31,539)</u>	<u>(58,810)</u>
	<u>175,028</u>	<u>168,634</u>	<u>266,965</u>	<u>356,580</u>	<u>489,983</u>
Equity attributable to owners of the Company	<u>175,028</u>	<u>168,634</u>	<u>266,965</u>	<u>356,580</u>	<u>489,983</u>

SUMMARY OF PROPERTIES

At 31 March 2010

INVESTMENT PROPERTIES

Location	Purpose	Approximate gross floor/ saleable area (sq.ft.)	Lease term
1. Ground Floor No.148 Johnston Road Wanchai Hong Kong	Commercial	580	Long
2. Ground Floor and Cockloft No.13 Matheson Street Causeway Bay Hong Kong	Commercial	1,232	Long
3. Two parcels of land at an industrial site located at the South of Hengtang Harbour, the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province of the People's Republic of China and total six building blocks had been built	Industrial	1,805,534	Medium