China Post E-Commerce (Holdings) Limited
中郵電貿(控股)有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8041)

Website: http://www.cpech.com

VERY SUBSTANTIAL ACQUISITION

ACQUISITION OF EASY TIME TRADING LIMITED INVOLVING THE ISSUE OF CONSIDERATION SHARES, CONVERTIBLE PREFERENCE SHARES AND PROMISSORY NOTES

The Board is pleased to announce that on 6 January 2011 (after trading hours), the Company, as the purchaser, the Vendor and Mr. Ma, as the guarantor, entered into the Sale and Purchase Agreement, pursuant to which, the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell, the Sale Shares at a total consideration of HK$390,000,000, which will be satisfied (i) as to HK$260,000,000 by way of issue of a total of 1,733,333,333 Convertible Preference Shares; (ii) as to HK$50,000,000 by way of issue of the Promissory Notes; and (iii) as to the balance of HK$80,000,000 by way of issue of a total of 533,333,333 Consideration Shares. The issue price of the Convertible Preference Share and the Consideration Share are HK$0.150 and HK$0.150 respectively, and the initial conversion price of the Convertible Preference Shares is HK$0.150.

* *For identification purpose only*

The Consideration has been arrived at after arm's length negotiations between the Company, the Vendor and Mr. Ma and was determined with reference to, including but not limited to, (i) the historical financial performance of the Ratio Knitting Group; (ii) the Profit Guarantee given by the Vendor; (iii) the synergy to be created for the Groups' existing advertising business after Completion; and (iv) the price-to-earnings ratio represented by the Consideration is below the average of the price-to-earnings ratios of certain comparable listed companies in Hong Kong which are principally engaged in the manufacturing and trading of innerwear, swimwear and other garment products.

The Directors consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Preference Shares, the Promissory Notes and the Consideration Shares) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Based on the relevant percentage ratios calculations under the GEM Listing Rules, the entering into of the Sale and Purchase Agreement constitutes a very substantial acquisition of the Company and is therefore subject to reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules

The Circular containing, among other things, (i) further information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) accountants' report of Ratio Knitting Group; (iii) pro forma financial information of the Group upon Completion; and (iv) notice of the EGM, will be despatched to the Shareholders on or before 7 February 2011 and in compliance with the GEM Listing Rules, so as to allow sufficient time for the preparation of the relevant information for the inclusion in the Circular.

The Board is pleased to announce that on 6 January 2011 (after trading hours), the Company, the Vendor and Mr. Ma, as the guarantor, entered into the Sale and Purchase Agreement, under which the Company will acquire the Sale Share, representing the entire issued share capital of Target Company.

(A) THE SALE AND PURCHASE AGREEMENT

Date

6 January 2011 (after trading hours)

Parties

1. The Company as the purchaser;

2. Big Good Management Limited as the Vendor; and

3. Mr. Ma, as the guarantor to the Vendor, has guaranteed in favour of the Company the due and punctual performance of the obligations of the Vendor under the Sale and Purchase Agreement.

The Vendor is an investment holding company. To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, the Vendor and Mr. Ma, the ultimate beneficial owner of the Vendor, are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules).

Subject

The Sale Shares, representing the entire issued share capital of the Target Company.

Consideration

The aggregate consideration for the sale and purchase of the Sale Shares is HK$390,000,000, which will be satisfied upon Completion in the following manner:

1. as to a sum of HK$260,000,000 by way of issue of a total of 1,733,333,333 Convertible Preference Shares at an issue price of HK$0.150 per Convertible Preference Share to the Vendor;

2. as to a sum of HK$50,000,000 (subject to adjustment) by the way of issue of the Promissory Notes to the Vendor; and

3. as to the balance of HK$80,000,000 (the "**CS Consideration**") by way of issue of a total of 533,333,333 Consideration Shares at an issue price of HK$0.150 per Share to the Vendor upon complete satisfaction of the Vendor's obligations under Tax Liability Adjudication and Profit Guarantee on the Contingent Consideration Payment Date.

The Consideration has been arrived at after arm's length negotiations between the Company, the Vendor and Mr. Ma and was determined with reference to, including but not limited to, (i) the historical financial performance of the Ratio Knitting Group; (ii) the Profit Guarantee given by the Vendor; (iii) the synergy to be created for the Groups' existing advertising business after Completion; and (iv) the price-to-earnings ratio represented by the Consideration is below the average of the price-to-earnings ratios of certain comparable listed companies in Hong Kong which are principally engaged in the manufacturing and trading of innerwear, swimwear and other garment products.

Conditions precedent

Completion shall be conditional upon satisfaction or waiver as applicable of each of the following conditions precedent:–

(i) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares and the Conversion Shares;

(ii) the Company being reasonably satisfied with the results of the due diligence review to be conducted;

(iii) all necessary consents, licences and approvals required to be obtained on the part of the Vendor and the Target Group in respect of the Sale and Purchase Agreement and the transactions contemplated thereby having been obtained and remain in full force and effect;

(iv) all necessary consents, licences and approvals required to be obtained on the part of the Company in respect of the Sale and Purchase Agreement and the transactions contemplated thereby having been obtained and remain in full force and effect;

(v) if required, the passing by the Shareholders at a general meeting of the Company to be convened and held of all necessary resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereby, including but not limited to the creation of the Convertible Preference Shares, the issue of the Promissory Note and the Convertible Preference Shares, the allotment and issue of the Consideration Shares, and the allotment and issue of the Conversion Shares upon exercise of the conversion rights attached to the Convertible Preference Shares in accordance with the terms of the Sale and Purchase Agreement, (if necessary) the Constituent Document Amendments, and all other consents and acts required under the GEM Listing Rules having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange;

(vi) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Company) from a firm of PRC legal advisers appointed by the Company in relation to the Sale and Purchase Agreement and the transactions contemplated thereby;

(vii) the warranties given by the Vendor as set out in the Sale and Purchase Agreement remaining true and accurate in all respects;

(viii) the issue of the Circular by the Company as required under the GEM Listing Rules; and

(ix) no indication being received from the Stock Exchange that the transactions contemplated under the Sale and Purchase Agreement will be treated or, as the case may be, ruled by the Stock Exchange as a "reverse takeover" under the GEM Listing Rules, or may otherwise trigger mandatory general offer obligations under Rule 26 of the Hong Kong Code on Takeovers and Mergers.

The Company may at any time before Completion waive the conditions precedent (ii), (vi) and (vii) in writing.

If any of the conditions precedent has not been satisfied (or, as the case may be, waived by the Company) at or before 12:00 noon on 30 June 2011 or such later date as the Company may agree, the Sale and Purchase Agreement shall cease and determine in which event neither party to the Sale and Purchase Agreement shall have any obligations and liabilities hereunder save for any antecedent breaches of the terms thereof.

Completion

Completion shall take place on the date falling on the third Business Day upon compliance with or fulfillment or waiver of all the conditions precedent of the Sale and Purchase Agreement.

Promissory Note(s)

The principal terms of the Promissory Note(s) are as follows:

Issuer:	The Company
Principal amount:	HK$50,000,000 (the "**Principal Amount**")
Maturity date:	the fifth anniversary of the date of issue of the Promissory Note(s) (or such other date as the parties thereto shall agree in writing) (the "**Maturity Date**")
Interest:	The Promissory Notes shall bear no interest

Redemption:	Provided that the Company has given to the holder of the Promissory Note(s) of not less than ten (10) Business Days' prior notice in writing of its intention to repay any part of the outstanding principal amount under the Promissory Note(s), the Company may at any time from date falling six months of the date of issue of the Promissory Note(s) up to the date immediately prior to the Maturity Date, repay the entire Promissory Note(s) or any part of it (in amounts of not less than HK$5,000,000) by payment to the holder of the Promissory Note(s) of the outstanding principal amount thereof save that if at that time, the outstanding principal amount of the Promissory Note(s) is less than HK$5,000,000, the whole (but not part only) of the Promissory Note(s) may be repaid
Transferability:	The Promissory Note(s) may, with ten Business Days' prior notice in writing to the Company of the intention of the holder of the Promissory Note(s) to transfer or assign the Promissory Note(s), be freely transferable and assignable by the holder of the Promissory Note(s) to any other person (other than a connected person (as defined in the GEM Listing Rules) and any subsequent holder of the Promissory Note(s) will (except as otherwise required by law) be treated as the absolute owner of the Promissory Note(s) for all purposes

Convertible Preference Shares

Principal terms of the Convertible Preference Shares are set out below:

Number of Convertible Preference Share:	1,733,333,333
Notional Value:	The issue price of each Convertible Preference Share, being HK$0.150.
Conversion price:	Initially, Convertible Preference Shares of an amount equivalent to HK$0.150 shall be convertible into one Share.

The conversion price will be subject to adjustments for, among other things, subdivision or consolidation of Shares, capitalisation of profits or reserves and capital distributions, rights issues, issues at less than market price, issue of convertible securities and modification of rights of conversion as described in the terms and conditions of the Sale and Purchase Agreement.

Dividend: Holder of each Convertible Preference Share shall have the same entitlement to dividend as holder of the number of Shares into which such Convertible Preference Share may be converted upon exercise of conversion rights attached thereto.

Conversion rights: Convertible Preference Shares are convertible at the option of the holder at any time after the issue date.

No conversion shall take place if:

1) to do so would result in the Conversion Shares being issued at a price below their nominal value as at the applicable conversion date;

2) to the extent that following such exercise, the relevant holder of Convertible Preference Share and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 20% or more of the entire issued share capital of the Company; or

3) immediately after such conversion, the public float of the Shares falls below the minimum public float requirements stipulated under the GEM Listing Rules or as required by the Stock Exchange.

Accordingly, the Company has the right not to issue any Conversion Shares to such holder(s) of Convertible Preference Shares exercising the conversion rights in the above circumstances.

Redemption:	Neither the Company nor any holder of the Convertible Preference Shares shall have any right to redeem the Convertible Preference Shares, other than for the purpose of conversion of the Convertible Preference Shares pursuant to the terms of the Convertible Preference Shares.
Ranking:	The Convertible Preference Shares rank, (i) in priority to the Shares as to return of capital; and (ii) pari passu with the Shares as to dividends.
Voting:	Holders of the Convertible Preference Shares (in their capacity as such) will not be permitted to attend or vote at meetings of the Company, unless a resolution is proposed to vary the rights of holders of the Convertible Preference Shares or a resolution is proposed for the winding up of the Company.
Listing:	No application will be made for the listing of the Convertible Preference Shares on the Stock Exchange or any other stock exchange.
Transferability:	The Convertible Preference Shares are freely transferable, provided that if any Convertible Preference Share(s) is/are intended to be transferable to a connected person (as defined in the Listing Rules) of the Company (other than the associates (as defined in the Listing Rules) of the holder of the transferring Convertible Preference Shares), such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange (if any).

The conversion price of HK$0.150 per Convertible Preference Share has been arrived at after arm's length negotiations between the Company, the Vendor and Mr. Ma, with reference to, among other things, the recent trend of the Share price performance and the prevailing market price of the Shares.

The conversion price of HK$0.150 per Convertible Preference Share represents:

(i) a discount of approximately 19.35% to the closing price of HK$0.186 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 9.6% to the average of the closing prices of approximately HK$0.166 per Share for the 10 consecutive trading days up to and including the Last Trading Day; and

(iii) a discount of approximately 15.3% to the average of the closing prices of approximately HK$0.177 per Share for the 30 consecutive trading days up to and including the Last Trading Day.

The maximum of 1,733,333,333 Conversion Shares to be issued upon full conversion of he Convertible Preference Shares represent approximately:

(a) 85.05% of the existing issued share capital of the Company; and

(b) 40.27% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and Conversion Shares upon full conversion of the Convertible Preference Shares.

Consideration Shares

A total of 533,333,333 Consideration Shares will be issued to the Vendor at Completion as part of the Consideration. The issue price of HK$0.150 per Consideration Share has been arrived at after arm's length negotiations between the Company, the Vendor and Mr. Ma, with reference to, among other things, the recent trend of the Share price performance and the prevailing market price of the Shares.

The issue price of HK$0.150 per Consideration Share represents:

(i) a discount of approximately 19.35% to the closing price of HK$0.186 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 9.6% to the average of the closing prices of approximately HK$0.166 per Share for the 10 consecutive trading days up to and including the Last Trading Day; and

(iii) a discount of approximately 15.3% to the average of the closing prices of approximately HK$0.177 per Share for the 30 consecutive trading days up to and including the Last Trading Day.

The 533,333,333 Consideration Shares represent approximately:

(a) 26.17% of the existing issued share capital of the Company; and

(b) 12.39% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and Conversion Shares upon full conversion of the Convertible Preference Shares.

The Conversion Shares and the Consideration Shares are to be issued by the Company under specific mandates. The Conversion Shares and the Consideration Shares, when issued and allotted, will rank *pari passu* in all respects with all the Shares then in issue.

An application will be made to the Stock Exchange by the Company for the listing of, and permission to deal in, the Conversion Shares and the Consideration Shares.

Tax Liability Adjudication

Upon the preliminary due diligence exercise performed by the Company on the Target Group and during the preparation of the accountants' report on Ratio Knitting Group for inclusion in the Circular, the Company was informed by its reporting accountants, RSM Nelson Wheeler ("**RSM**"), that it is envisaged that RSM will issue a qualified opinion (the "**Audit Qualifications**") regarding the inventory balances in the accountants' report on Ratio Knitting Group. The Audit Qualifications is mainly due to the fact that (i) RSM did not observe the counting of the physical inventories as of 1 April 2007, 31 March 2008, 31 March 2009 and 31 March 2010 since those dates were prior to the time RSM was initially engaged as reporting accountants for Ratio Knitting; and (ii) owing to the incompleteness of Ratio Knitting's records for the respective periods, RSM would not be able to satisfy themselves as to inventory quantities by other audit procedures. As such, any adjustments to the inventory balances as at 1 April 2007, 31 March 2008, 31 March 2009 and 31 March 2010 might have consequential effects on, among other things, the results for the years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2010, and accordingly, may result in possible additional tax liability to Ratio Knitting which will become a subsidiary of the Group upon Completion.

In order to protect the interest of the Group in relation to the Acquisition, it was provided in the Sale and Purchase Agreement that in case that there exists Adjudicated Tax Liability, the Consideration shall be adjusted in the manner in accordance with the following formula:

$$X = Y - Z$$

Where:

X = the sum to be deducted from the Consideration (the "**Deduction**")

Y = the Adjudicated Tax Liability

Z = the sum of tax payment made by the Ratio Knitting for the tax liabilities incurred during the Adjudication Period

For the avoidance of doubt, there should not be any adjustments to the Consideration if "X" shall be zero or falls to be a negative figure.

The Vendor irrevocably and unconditionally undertakes in favour of the Company to file all necessary application(s) for revision of assessment to IRD for the tax liability of Ratio Knitting for the Adjudication Period as soon as possible upon the receipt of the audited financial statements of Ratio Knitting for the three financial years ended 31 March 2010 and the nine months ended 31 December 2010. The Vendor thereby further irrevocably and unconditionally undertakes in favour of the Company to use its best endeavours and to promptly provide all necessary assistance and take all necessary actions with a view to obtaining the results of the relevant adjudication from the IRD as soon as possible. The Vendor shall forthwith deliver, or to procure the delivery of, the letter or the statement from IRD showing the result of the Adjudicated Tax Liability to the Company upon issue.

Within 7 Business Days upon receipt of (a) the letter or the statement from IRD showing the result of the Adjudicated Tax Liability for the period commencing on 1 April 2007 and ending on 31 March 2010 by the Company; and (b) the tax computation of the Adjudicated Tax Liability for the period commencing on 1 April 2010 and ending on 31 December 2010 prepared by the auditors for the time being of the Company (the "**Auditor**"), the Company shall issue to and serve on the Vendor a written certificate (the "**Adjustment Certificate**") (i) showing the calculation of the Deduction, if any, based on the Adjudicated Tax Liability; (ii) certifying the amount of the Deduction, if any, to be made based on the Adjudicated Tax Liability; and (iii) certifying the amount of the Deduction to be set off against, the Promissory Note and/or the Consideration Shares. The Adjustment Certificate shall, in the absence of manifest error and/or dispute from the Vendor, be final and conclusive of the matters stated therein and binding on the Vendor, Mr. Ma and the Company.

In the event that the result of the Adjudicated Tax Liability is received and the Adjustment Certificate is issued and served by the Company before the Completion Date, the sum of Deduction as shown in the Adjustment Certificate shall be deducted from the Promissory Note and the principal amount of the Promissory Note to be issued by the Company shall be adjusted accordingly.

In the event that the result of the Adjudicated Tax Liability and the Adjustment Certificate is not available by the time of Completion, as security for the performance of the obligations of the Vendor under the Tax Liability Adjudication and the Profit Guarantee (details of which are set out below), the Vendor and the Company shall jointly appoint the Escrow Agent (if no such Escrow Agent is appointed, the Company) to act as the escrow agent and to hold the Promissory Note until such Promissory Note is to be released.

Upon issue of the Adjustment Certificate by the Company, the Company shall have the right to unilaterally instruct the Escrow Agent to return the Promissory Note then being held by the Escrow Agent to the Company to set off the Deduction. For the avoidance of doubt, should there be any outstanding principal amount of the Promissory Note after deducting the Deduction and the Divergence (as defined below) from the amount of the Promissory Note held in escrow by the Escrow Agent, the original Promissory Note shall be cancelled and the Company shall issue a new Promissory Note in the sum of the balance principal amount of the Promissory Note, and such new Promissory Note shall be delivered to the Vendor on the Contingent Consideration Payment Date.

If the amount of the Promissory Note is not sufficient to cover the sum of the Deduction and the Divergence, the shortfall shall be deducted from the CS Consideration and the number of Considerations Shares to be allotted and issued to the Vendor shall be adjusted accordingly.

The Company shall, upon receiving (i) the Adjustment Certificate, (ii) the Guarantee Certificate (as defined below) and (iii) the application of Shares duly completed and signed by the Vendor, and against the representation made by the Vendor to the Company that the allotment and issue of the Consideration Shares (a) will not render the holder(s) of the Consideration Shares and parties acting in concert with it, taken together, directly or indirectly, control or be interested in 20% or more of the entire issued share capital of the Company; or (b) if immediately after such allotment and issue, will not render the public float of the Shares falling below the minimum public float requirements stipulated under the Listing Rules or as required by the Stock Exchange, allot and issue and deliver to the Vendor the Consideration Shares on the Contingent Consideration Payment Date. Pursuant to the terms of the Sale and Purchase Agreement, the Company has the right not to issue any Consideration Shares to the Vendor if the principles (a) and (b) as stated above in this paragraph are not fulfilled. For the avoidance of doubt, no fractional Share will be allotted and issued by the Company.

No Promissory Note shall be released and/or no Consideration Shares shall be allotted and issued to the Vendor until the performance of the obligations of the Vendor under both the Tax Liability Adjudication and the Profit Guarantee are duly completed. Pursuant to the terms of the Sale and Purchase Agreement, the sum of the Deduction together with the amount to be paid by the Vendor under the Profit Guarantee, if any, shall not be more than HK$130,000,000, which is equivalent to the aggregate amount of the Promissory Note being escrowed and the Consideration Shares the issuance of which being deferred. The Directors are of the view that such HK$130,000,000 cap amount being fair and reasonable having considered that (i) the historical profitability of Ratio Knitting Group; and (ii) the preliminary estimation on the additional tax payment as a result of the Adjudicated Tax Liability would be an amount of not more than HK$4 million after the preliminary consultation made by the Company to tax advisory professionals.

Profit Guarantee

Pursuant to the Sale and Purchase Agreement, the Vendor irrevocably and unconditionally warrants and guarantees to the Company that the audited net profits before tax and minority interests and any extraordinary or exceptional items of the Target Group as shown in its unqualified audited consolidated financial statement for the twelve months ending on 30 September 2011 (the "**Full-Year Period**") will not be less than HK$20,000,000 (the "**Full-Year Guaranteed Profit**"). As security for the performance of the obligations of the Vendor under the Profit Guarantee and the Tax Liability Adjudication, the Vendor and the Company shall jointly appoint the Escrow Agent (and if no such Escrow Agent is appointed, the Company), to act as the escrow agent and to hold the Promissory Note in the sum of HK$50,000,000 (or if any part of the Promissory Note has been deducted pursuant to the Tax Liability Adjudication, the entire remaining outstanding principal amount of the Promissory Note) until such Promissory Note is to be released.

Provided that the performance of the obligation of the Vendor under the Tax Liability Adjudication has been completed, if the Full-Year Actual Profit (as defined below) as certified by the Auditor shall be not less than HK$20,000,000, being the Full-Year Guaranteed Profit, the Vendor and the Company shall jointly procure the Escrow Agent, or the Company (as the case may be), to release the Promissory Note which is held in escrow by the Escrow Agent to the Vendor on the Contingent Consideration Payment Date.

Given that the Consideration of HK$390,000,000 represents a price-to-earnings ratio of 19.5 times based on the Full-Year Guaranteed Profit, if the actual audited net profits before tax and minority interests and any extraordinary or exceptional items of the Target Group for the Full-Year Period (the "**Full-Year Actual Profit**") as shown in the Guarantee Certificate (as defined below) is less than the Full-Year Guaranteed Profit, then the Vendor shall pay to the Company an amount calculated as follows:

Divergence = (Full-Year Guaranteed Profit – Full-Year Actual Profit) x 19.5

In such event, the Company shall have the right to unilaterally instruct the Escrow Agent to return the Promissory Note then being held by the Escrow Agent to the Company to set off the Divergence. For the avoidance of doubt, should there be any outstanding principal amount of the Promissory Note after deducting the Divergence and the Deduction from the amount of the Promissory Note held in escrow by the Escrow Agent, the original Promissory Note shall be canceled and the Company shall issue a new Promissory Note in the sum of the balance principal amount of the Promissory Note, and such new Promissory Note shall be delivered to the Vendor on the Contingent Consideration Payment Date.

If the amount of the Promissory Note is not sufficient to cover the Divergence and the Deduction, the shortfall shall be deducted from the CS Consideration and the number of Considerations Shares to be allotted and issued to the Vendor shall be adjusted accordingly.

For the avoidance of doubt, the sum of the Divergence, if any, together with the amount of Deduction under the Tax Liability Adjudication shall not be more than HK$130,000,000. Should the Target Group record a loss in its audited consolidated financial statements for the Full-Year Period or should the audited consolidated financial statements of the Target Company for the Full-Year Period is qualified by the Auditor, the Full-Year Actual Profit for such Full-Year Period shall be deemed as zero.

The Vendor and the Company shall procure that the audited consolidated financial statements of the Target Group for the Full-Year Period shall be prepared and reported on by the Auditors by the date falling four months after the expiry of the Full-Year Period, and the Auditors shall issue a certificate (the "**Guarantee Certificate**") to certify the amount of the aggregate audited net profits before tax and minority interests and any extraordinary or exceptional items of the Target Group as shown in such audited financial statements. The Guarantee Certificate shall, in the absence of manifest error and/or dispute from the Vendor, be final and conclusive of the matters stated therein and binding on the Vendor, Mr. Ma and the Company.

Other undertakings

According to the terms of the Sale and Purchase Agreement, it is intended by the Company, the Vendor and Mr. Ma that subject to the terms and conditions of the Sale and Purchase Agreement, the Target Group will undergo the Reorganisation that the entire equity interests in the WOFE will be disposed of by the Target Company, such that immediately after the Reorganisation, the WOFE shall no longer form part of the Target Group.

Given that transfer of equity interests in the WOFE would require approval from the relevant 對外經濟貿易委員會 (Foreign Economic & Trade Commission) and registration in the relevant Industry and Commerce registration authority, it would take time for Ratio Knitting to obtain such approval and to complete the required registrations. In this regard, pursuant to the Sale and Purchase Agreement, the Vendor and Mr. Ma jointly and severally undertake in favour of the Company that they will use their best endeavours to, or to procure the relevant parties to, assist, undertake and sign all necessary steps, acts, matters, deeds, documents and things as may consider by the Company to be necessary or desirable for or in connection with and to give effect to the Reorganisation, and the Reorganisation shall be completed on or before the date falling the first anniversary of the Completion Date (or such other date as may be agreed between the parties to the Sale and Purchase Agreement).

The Vendor and Mr. Ma also jointly and severally undertake to indemnify the Company and the Target Group on demand and to hold it and any of the Target Group harmless from and against all liabilities, damages, costs, claims, reduction in net consolidated assets or increase in net consolidated liabilities and all reasonable expenses which the Company may sustain, suffer, or incur as a result of the Reorganisation or incurred by the WOFE accruing from the Completion Date to the date of completion of the Reorganisation, and the Vendor shall pay to the Company on demand the full amount of any such loss as aforesaid in immediately available funds. As such, the Directors are of the view that the risk that the failure of the Reorganisation will cause a material and adverse impact on the financial position on the Group is minimal.

(B) INFORMATION ON THE TARGET GROUP

The Target Company is principally engaged in investment holding and was incorporated in the British Virgin Islands with limited liability. The Target Company is wholly owned by the Vendor which is 100% beneficially owned by Mr. Ma. Mr. Ma is a merchant who have various investments in the online business sector and has over 5 years experience in the information technology industry. To the best knowledge of the Directors, Mr. Ma is not a party acting in concert (as defined in the Takeovers Code) with any Shareholders as at the date of this announcement.

Save for its 99% equity interests in Ratio Knitting, which in turn is the registered owner of the WOFE and being the 100% beneficial owner of Yofiel, the Target Company has not carried out other significant business activities since its incorporation on 3 September 2010 and does not have other significant assets and liabilities. The Target Company has not recorded any turnover since its incorporation and save for minimal administrative expenses incurred which has been settled by loan from its shareholders, the Target Company has no other liabilities or contingent liabilities as at the date of this announcement. Accordingly, the financial information of the Target Company is immaterial to the Target Group.

Ratio Knitting, a company incorporated in Hong Kong, is principally engaged in the manufacturing for and trading of high-end swimwear and related garment products to international brands. Ratio Knitting is owned as to 99% by the Target Company and 1% by Mr. Ma. Ratio Knitting has carried out its manufacturing through its processing arrangement with the PRC Processing Partners pursuant to the Processing Agreement dated 3 April 1992. To the best knowledge of the Directors, the PRC Processing Partners, which are enterprises set up and owned by the local government of Dongguan, are third parties independent of the Company and its connected persons.

Ratio Knitting beneficially owns the entire issued share capital of Yofiel. Yofiel was incorporated on 20 October 2010 and is intended to engage in the sales of swimwear and underwear in the PRC both on the Internet and in retail shops. Yofiel is the licensee for the use of the registered trademarks containing "安格薇" or "Angevil" or trademarks containing related or similar characters. "Angevil" is a well-known brand for underwear originated from Korea. Products of Angevil have been introduced into the PRC market since 2007 and are currently sold in over 10 major cities in the PRC.

The WOFE is a wholly-owned foreign enterprise established under the laws of the PRC. The WOFE has not carried out any significant business activities since its incorporation on 29 December 2008 and does not have any significant assets and liabilities save and except for its holding of a motor vehicle and a cross-border driving licence. Given that the WOFE has no significant assets or operations and is currently dormant, the Company intends to dispose of the WOFE through the Reorganisation.

To the best knowledge of the Company, as at the date of this announcement, buyer(s) for the disposal of the WOFE have not been identified and terms of the disposal of the WOFE, such as consideration of the disposal, are yet to be finalised. In the event if the Reorganisation is completed prior to the Completion, there should be no GEM Listing Rules implications on the part of the Company as regards the Reorganisation. However, should the Reorganisation have not been completed prior to the Completion, the WOFE would become an indirect non-wholly owned subsidiary of the Company immediately after the Completion. In such event, upon the terms of the disposal being finalised and crystalised following the Completion, the Company will comply with applicable requirements under the GEM Listing Rules with respect to the Reorganisation.

Set out below is the unaudited consolidated financial information of Ratio Knitting Group for the two financial years ended 31 March 2009 and 31 March 2010 respectively:

	For year ended 31 March 2009 *HK$'000* (unaudited)	**For the year ended 31 March 2010** *HK$'000* (unaudited)
Turnover	130,450	84,047
Profits before taxation	35,033	16,932
Profits for the year	31,940	15,336

As at 30 September 2010, the unaudited consolidated net asset value of Ratio Knitting Group was approximately HK$7,551,000.

(C) REASONS FOR AND BENEFIT OF THE ACQUISITION

The Group is currently principally engaged in the manufacture and sale of ceramic blanks and ferrules as well as the provision of advertising and media services. While the Company continues to run its main business in the manufacture and sale of ceramic blanks and ferrules, as stated in the third quarter report of the Company, the Company is actively exploring business opportunities in direct mailing and e-commerce. During the year, the Company has entered into various strategic cooperation arrangements to strengthen its online-shopping and advertising businesses. As reported in various press articles in the past few months, the Group is currently operating 6 online-shopping websites including www.babybamboo.net and www.monsters.net.cn, etc., and has set up an internet sales centre in Shenzhen with a sale force of over 60 staff to provide one-stop-shop business-to-customer services such as web-site management, online-shopping and customer services, for over 30 brands with products covering beauty products, fashions and electronic audio and visual products. The Group also established its online group buying business that operates in Hong Kong with a sales and marketing team of over 20 staff. The acquisition of the Target Group, which possesses particularly its strengths in the manufacturing of high-margin fashionable swimwear and related garment products together with the holding of the recognized trademark "Angevil", is considered as complementary and reinforcement to the Group's existing e-commerce operations. As a result of the Acquisition, it is expected that the garment products manufactured by the Target Group will serve as a secured source of women's fashion products with remarkable profit margins for the Group's online-shopping operations. Given the fast growing economic conditions of the PRC and the increasing number of female online shoppers which would create growing demand for women's fashions (including swimwear and underwear) on the online markets, the Board considers the Acquisition representing another strategic opportunity to the Group to further strengthen its existing e-commerce business.

Upon Completion, the financial results of the Target Group will be consolidated into the Group's financial statements. As at the date of this announcement, the Company neither has entered into, nor has any present plan to enter into any agreement, arrangement, understanding or negotiation (whether concluded or not) and intention to dispose of/downsize the existing business of the Group. However, should suitable business opportunities arise in the future, the Company will continue to explore and consider any of such business opportunities, including acquisitions or realizations, which are in line with the Group's business strategies and may enhance the Group's future business development. As at the date of this announcement, the Company has no intention to change the composition of its Board upon Completion. Furthermore, there is no provision in the Sale and Purchase Agreement that the Vendor can appoint or nominate any directors to the Board.

The Directors consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including but limited to the issue of the Convertible Preference Shares, the Promissory Notes and the Consideration Shares) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(D) SHAREHOLDING STRUCTURE

Set out below are the shareholding structures of the Company (i) as at the date of this announcement; (ii) immediately upon the Completion and after the conversion in part of the Convertible Preference Shares at the initial conversion price pursuant to the Restrictions (as defined in Note 4 below) and other terms of the Sale and Purchase Agreement; (iii) for illustrative purpose only, immediately upon the Completion and after the issue and allotment of the Consideration Shares but before the conversion of the Convertible Preference Shares; and (iv) for illustrative purpose only, immediately upon the Completion and after the issue and allotment of the Consideration Shares and the full conversion of the Convertible Preference Shares at the initial conversion price.

	As at the date of this announcement		**Immediately upon the Completion and after the conversion in part of the Convertible Preference Shares at the initial conversion price pursuant to the Restrictions (as defined in note 4 below) and other terms of the Sale and Purchase Agreement** *(Note 4)*		**For illustrative purpose only, immediately upon the Completion and after the issue and allotment of the Consideration Shares but before the conversion of the Convertible Preference Shares** *(Note 5)*		**For illustrative purpose only, immediately upon the Completion and after the issue and allotment of the Consideration Shares and the full conversion of the Convertible Preference Shares at the initial conversion price** *(Note 5)*	
	Number of Shares (in thousand)	*Approx. %*	*Number of Shares (in thousand)*	*Approx. %*	*Number of Shares (in thousand)*	*Approx. %*	*Number of Shares (in thousand)*	*Approx. %*
JL Investment Capital Limited *(Note 1)*	606,400,000	29.75	606,400,000	23.83	606,400,000	23.58	606,400,000	14.09
Senrigan Capital Group Limited on behalf of Senrigan Master Fund *(Note 2)*	300,000,000	14.72	300,000,000	11.79	300,000,000	11.67	300,000,000	6.97
Info-Source International Development Limited *(Note 3)*	107,820,895	5.29	107,820,895	4.24	107,820,895	4.19	107,820,895	2.50
The Vendor	–	–	506,333,468	19.90	533,333,333	20.74	2,266,666,666	52.66
Other Shareholders	1,023,834,924	50.24	1,023,834,924	40.24	1,023,834,924	39.82	1,023,834,924	23.78
Total	2,038,055,819	100.00	2,544,389,287	100.00	2,571,389,152	100.00	4,304,722,485	100.00

Notes:

1. JL Investment Capital Limited is legally and beneficially owned by Mr. Lau Chi Yuen, Joseph.

2. Senrigan Capital Group Limited, a hedge fund management company in Hong Kong, holds these interests on behalf of Senrigan Master Fund.

3. Info-Source International Development Limited is legally and beneficially owned by Guangdong Postal Bureau (廣東省郵政公司).

4. The terms of the Sale and Purchase Agreement provides that, among other things, the allotment and issue of the Consideration Shares and/or the conversion of the Convertible Preference Shares shall not take place if to the extent that following such issue and/or exercise, the relevant holder of Consideration Share and/or Convertible Preference Share and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 20% or more of the entire issued share capital of the Company (the "Restrictions").

5. Given the Restrictions as detailed in Note 4 above, it is expected that these scenarios will not happen but are included herein for illustrative purpose only.

(E) GEM LISTING RULES IMPLICATIONS

Based on the relevant percentage ratios calculations under the GEM Listing Rules, the entering into of the Sale and Purchase Agreement constitutes a very substantial acquisition of the Company and is therefore subject to reporting, announcement and shareholder's approval requirements under Chapter 19 of the GEM Listing Rules.

The Circular containing, among other things, (i) further information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) accountants' report of Ratio Knitting Group; (iii) pro forma financial information of the Group upon Completion; and (iv) notice of the EGM, will be despatched to the Shareholders on or before 7 February 2011 and in compliance with the GEM Listing Rules, so as to allow sufficient time for the preparation of the relevant information for the inclusion in the Circular.

(F) DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

"Accounts Date"	31 March 2010, being the date on which the Audited Accounts have been prepared
"Acquisition"	the proposed acquisition of the Sale Shares pursuant to the Sale and Purchase Agreement
"Adjudication Period"	the period commencing on 1 April 2007 and ending on 31 December 2010
"Adjusted Tax Liabilities"	the tax liability of Ratio Knitting for the Adjudication Period as adjudicated by the IRD
"Audited Accounts"	the consolidated balance sheet, as at the Accounts Date, and audited consolidated profit and loss account of the Ratio Knitting for the period from 1 April 2007 and ended on the Accounts Date, including the directors' report thereon (if any) and the notes thereto

"Business Day"	any day (excluding a Saturday and any day on which a tropical cyclone warning signal no. 8 or above or a "black" rainstorm warning signal is hoisted or remains hoisted in Hong Kong at an time between 9 a.m. to 5 p.m. and is not lowered or discontinued at or before 5 p.m.) on which banks are generally open for business in Hong Kong
"BVI"	the British Virgin Islands
"Circular"	the shareholders' circular to be issued by the Company in accordance with the GEM Listing Rules in respect of the Sale and Purchase Agreement and the transactions contemplated thereby
"Company"	China Post E-Commerce (Holdings) Limited, a company incorporated in Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange
"Completion"	completion of the transactions contemplated under the Sale and Purchase Agreement
"Consideration"	the consideration of HK$390,000,000 for the Sale Share under the Sale and Purchase Agreement
"Consideration Share(s)"	new Shares to be issued and credited as fully paid at Completion to the Vendor by the Company to satisfy part of the Consideration
"Constituent Document Amendments"	such necessary amendments required to be made by the Company to its articles of association for the purpose of authorising the creation of the Convertible Preference Shares, the issue of the Convertible Preference Shares, and the incorporation of the terms of the Convertible Preference Shares
"Contingent Consideration Payment Date"	the later of (i) the date falling one month after the date of the Adjustment Certificate; or (ii) the date falling one month from the date of receipt by the Company of such audited financial statements and the Guarantee Certificate, or such other date as the Vendor and the Company may agree
"Conversion Share(s)"	new Shares to be issued upon the exercise by the holders of Convertible Preference Shares of the conversion rights attached to such Convertible Preference Shares

"Convertible Preference Share(s)"	the convertible preference shares to be created and issued at Completion to the Vendor by the Company to satisfy part of the Consideration
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder
"Escrow Agent"	until an escrow agent is appointed by the Company, pursuant to the terms of the Sale and Purchase Agreement, the Company, and any successor escrow agent appointed by the Company
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IRD"	The Inland Revenue Department of The Government of Hong Kong
"Last Trading Day"	6 January 2011, being the last day on which the Shares were traded on the Stock Exchange immediately preceding the publication of this announcement
"Mr. Ma"	Mr. Ma Hoi Cheuk, the ultimate beneficial owner of the Vendor
"PRC"	the People's Republic of China

"PRC Processing Partners"	虎門對外經濟發展公司 (Humen External Economic Development Company*) and 東莞市對外加工裝配服務公司(Dongguan External Manufacturing and Assembling Service Company*), being the PRC parties under the Processing Agreement or the respective supplements and amendments
"Processing Agreement"	the processing agreement and made among the PRC Processing Partners and Ratio Knitting dated 3 April 1992 and all supplements and amendments thereto from time to in relation to the processing arrangement of manufacturing of garments
"Profit Guarantee"	the warranty and guarantee given by the Vendor to the Company that the audited consolidated net profits before tax and minority interests and any extraordinary or exceptional items of the Target Group as shown in its unqualified audited consolidated financial statement for the twelve months ending on 30 September 2011 will not be less than HK$20,000,000
"Promissory Notes"	the promissory notes to be executed by the Company to satisfy part of the Consideration
"Ratio Knitting"	Ratio Knitting Factory Limited, a company incorporated in Hong Kong with limited liability and the Target Company is the legal and beneficial owner of 99% of its entire issued share capital
"Ratio Knitting Group"	Ratio Knitting and its subsidiaries including WOFE and Yofiel
"Reorganisation"	the corporate reorganisation exercise that the disposal of the entire equity interests in the WOFE by the Target Company
"Sale and Purchase Agreement"	the agreement to acquire the Sale Shares entered into amongst the Company, the Vendor and Mr. Ma on 6 January 2011
"Sale Shares"	one share of US$1.00 in the share capital of the Target Company, the entire issued and fully paid-up share capital thereof
"SFO"	the Securities and Futures Ordinance (Cap 571) of the Laws of Hong Kong as amended from time to time
"Share(s)"	share(s) in the Company of HK$0.05 each

* *For identification purpose only*

"Shareholders"	holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target Company"	Easy Time Trading Limited, a company incorporated in the BVI with limited liability and a wholly owned subsidiary of the Vendor as at the date of this announcement
"Target Group"	the Target Company and its subsidiaries
"Tax Liability Adjudication"	the undertaking given by the Vendor to the Company regarding the Adjusted Tax Liabilities
"Vendor"	Big Good Management Limited, a company incorporated in the BVI with limited liability, and is wholly and beneficially owned by Mr. Ma
"WOFE"	江門市雙苑針織製衣有限公司(Jiangmen City Shuangyuan Knitting and Garment Factory Company Limited*), a wholly-owned foreign enterprise established under the laws of the PRC and a wholly owned subsidiary of the Target Company
"Yofiel"	Yofiel International Group Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Ratio Knitting
"%"	per cent

By Order of the Board
China Post E-Commerce (Holdings) Limited
Lau Chi Yuen, Joseph
Chairman

Hong Kong, 6 January 2011

* *For identification purpose only*

As at the date of this announcement, the Board comprises two (2) executive directors, namely, Mr. Lau Chi Yuen, Joseph (Chairman) and Mr. Chung Man Wai, and three (3) independent non-executive directors, namely Dr. Lee Chung Mong, John, Mr. Tam Wing Kin and Mr. Fung Chan Man, Alex.

This announcement for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for 7 days from the date of its posting and on the website of the Company.