EASYKNIT ENTERPRISES HOLDINGS LIMITED

永 義 實 業 集 團 有 限 公 司

(Stock Code : 0616)

2007/2008

Annual Report

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BOARD OF DIRECTORS

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

Non-Executive Director
Mr. Tse Wing Chiu, Ricky

Independent Non-Executive Directors
Mr. Kan Ka Hon
Mr. Lau Sin Ming
Mr. Foo Tak Ching

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

COMPANY SECRETARY

Mr. Chan Po Cheung

QUALIFIED ACCOUNTANT

Mr. Hsu Kei Leung

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

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL PLACE OF BUSINESS

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

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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On behalf of the board of directors 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 2008.

FINANCIAL RESULTS

For the year ended 31 March 2008, the Group recorded a turnover of approximately HK$74,923,000, a decrease of approximately 1.4% over last year (2007: approximately HK$75,964,000). Gross profit increased to approximately HK$9,202,000 (2007: approximately HK$1,247,000). Gross profit margin increased approximately 10.6%. Loss attributable to shareholders increased approximately 55.1% to approximately HK$17,811,000 (2007: approximately HK$11,481,000). Loss per share was approximately HK cent 0.4 (2007: approximately HK cent 0.3).

The loss for the year under review was primarily attributable to the payment of legal and professional fees of approximately HK$9,135,000 in relation to the possible merger with Wits Basin Precious Minerals Inc., details of which are shown in section "Material Acquisitions and Disposals" below.

The cost of sales and services reduced approximately 12% to approximately HK$65,721,000 (2007: approximately HK$74,717,000), primarily due to reduction in quantity of sales, the success in controlling the cost of production, effort in streamlining the production process and improvement in the effectiveness of managing the Group's resources.

Other income decreased by approximately 34.7% to approximately HK$1,742,000 (2007: approximately HK$2,667,000), mainly due to the decrease in interest income during the year.

The Group's total operating expenses rose by approximately 62.3% to approximately HK$26,149,000 (2007: approximately HK$16,116,000), largely due to the increase in the legal and professional fees as a result of the payment in relation to the possible merger with Wits Basin Precious Minerals Inc. as mentioned above.

Finance costs increased approximately 75.2% to approximately HK$268,000 (2007: approximately HK$153,000), principally by reason of the imputed interest on the 1% HK$37,650,000 convertible note due in March 2009, details of which are shown in section "Capital Structure" below.

BUSINESS REVIEW

During the year ended 31 March 2008, the Group was principally engaged in the businesses of bleaching and dyeing, and knitting.

Bleaching and dyeing

The bleaching and dyeing business continued to be the major business of the Group and contributed to approximately 99.96% of the Group's total turnover for the year ended 31 March 2008 (2007: 100.0%). Turnover of this segment decreased slightly approximately 1.4% to approximately HK$74,891,000 (2007: approximately HK$75,964,000). This segment results recorded a loss of approximately HK$2,323,000 (2007: approximately HK$2,400,000). The Group's bleaching and dyeing factory located in Dongguan, the People's Republic of China (the "PRC") currently has a daily production capacity of about 30,000 pounds of fabrics.

Knitting

External sales of approximately HK$32,000 were recorded for the knitting business during the year under review (2007: nil). Taking into account the portion of inter-segment, the turnover derived from this segment rose by approximately 2.4% to approximately HK$8,487,000 (2007: approximately HK$8,292,000). The segment loss decreased from approximately HK$2,334,000 to approximately HK$1,362,000, mainly due to the more effective and efficient management of the Group's resouces through controlling the cost of production and streamlining the production process. The knitting mill in Heyuan, the PRC has a daily production capacity of about 20,000 pounds of fabrics.

Geographical analysis

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

Huzhou Project

The progress of the Group's project in Huzhou City, Zhejiang Province, the PRC (the "Huzhou Project") had made little progress because the Huzhou Government, due mainly to the PRC's ongoing macroeconomic adjustment and lack of funds to resite the farmers, was unable to deliver the possession of the remaining two parcels of land with an aggregate area of approximately 381 mu for our proposed bleaching and dyeing, and knitting capabilities, though during the year a further land use right certificate for a further 115 mu of land, which was marked for the use of the knitting operation, was granted. Negotiation is being carried out with the Huzhou Government for a grant of the land use right certificate of land marked for the bleaching and dyeing operation, as well as the actual delivery of the aggregate area of 381 mu of land and/or a revision of the contractual terms to the benefit of the Group as the delay was entirely due to the Huzhou Government.

Construction work on the approximately 251 mu land granted and delivered for the garment manufacturing operation is continuing as scheduled and is expected to be finished by November to enable commercial use.

PROSPECTS

The directors of the Company anticipate that the businesses of the Group will remain stable due to its stable customer orders. Facing with keen competition in the market, the Group will focus in implementing an effective control in production cost and improving its product quality in order to sharpening its competitiveness with a view to bring up a better return to its shareholders.

As regard to the Huzhou Project, the directors will continue to keep track of the transfer of the remaining two parcels of land to the Group. When the land is transferred to the Group, construction works will be started as quickly as possible. The directors believe that the Huzhou Project will help the Group increase its production capacity, enrich its product portfolio and diversify its income sources.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 March 2008, the Group financed its operations mainly by internally generated resources, and the net proceeds of approximately HK$100 million and HK$37 million raised from the Rights Issue and the Convertible Note respectively, details of the Rights Issue and the Convertible Note are shown in section "Capital Structure" below. The raised fund is for financing the Huzhou Project and general working capital. As at 31 March 2008, the Group had no outstanding bank borrowings (31 March 2007: approximately HK$6,038,000). Shareholders' funds of the Group as at 31 March 2008 was approximately HK$266,965,000 (31 March 2007: approximately HK$168,634,000). The Group's gearing ratio, calculated based on the total borrowings and the liability component of convertible note of approximately HK$33,750,000 at 31 March 2008 (31 March 2007: nil) to the shareholders' funds, was 0.126 (31 March 2007: approximately 0.036).

The Group continued to sustain a liquidity position. As at 31 March 2008, the Group had net current assets of approximately HK$105,742,000 (31 March 2007: approximately HK$54,031,000) and cash and cash equivalents of approximately HK$139,753,000 (31 March 2007: approximately HK$29,392,000). The Group's cash and cash equivalents were mainly denominated in Hong Kong dollars and Renminbi. As at 31 March 2008, the Group's current ratio was approximately 2.6 (31 March 2007: approximately 2.5), which was calculated on the basis of current assets of approximately HK$172,126,000 (31 March 2007: approximately HK$90,276,000) to current liabilities of approximately HK$66,384,000 (31 March 2007: approximately HK$36,245,000). During the year under review, the Group serviced its debts mainly through internally generated resources.

The directors believe that the Group has sufficient financial resources for its operations. The directors will remain cautious in the Group's liquidity management.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Group's revenues and payments are in Hong Kong dollars and Renminbi. During the year under review, the Group had no significant exposure to fluctuations in exchange rates and thus, no financial instrument for hedging purposes was employed. The directors considered the risk of exposure to currency fluctuations to be minimal.

CAPITAL STRUCTURE

On 21 January 2008, the Company allotted 1,963,537,620 rights shares of HK$0.01 each at a subscription price of HK$0.052 per rights share on the basis of one rights share for every two shares held (the "Rights Issue"). Details of the Rights Issue are set out in the Company's prospectus dated 31 December 2007.

On 28 February 2008, the Company entered into a subscription agreement (the "Subscription Agreement") with Mr. Chen Tien Tui (the "Subscriber") pursuant to which the Subscriber had agreed to subscribe for the convertible note with a principal amount of HK$37,650,000 (the "Convertible Note") at the initial conversion price of HK$0.048 per conversion share (the "Initial Conversion Price"). The maturity date of the Convertible Note is one year after its issuance. Interest at 1% per annum will be paid semi-annually in arrears. Completion of the Subscription Agreement and issuance of the Convertible Note had taken place on 12 March 2008. Details of the Convertible Note are set out in the Company's announcements dated 3 and 12 March 2008.

During the period between April and June 2008, the Subscriber had converted the whole of the principal amount of the Convertible Note of HK$37,650,000 at the Initial Conversion Price. As a result of the conversion, a total of 784,375,000 ordinary shares of HK$0.01 each in the share capital of the Company had been allotted and duly issued.

The Group had no debt securities or other capital instruments as at 31 March 2008, except the Convertible Note mentioned above and up to the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS

In November 2006, the Group was approached by Wits Basin Precious Minerals Inc., ("Wits Basin"), a company incorporated in Minnesota, the United States of America ("USA") whose principal business is the exploration and development of minerals in Mexico, Colorado and South Africa, for preliminary discussion in respect of a possible merger between the Group and Wits Basin. After several meetings with the key management of Wits Basin, the directors were of the view that the possible merger is in the best interest of the Company and its shareholders as a whole as it would allow the Group to diversify its business interests into mining, a sector in which the Group foresee attractive growth prospects, and reduce its reliance on its current business which operate in a highly-competitive environment with no significant barriers to entry.

On 2 February 2007, the Company and its wholly-owned subsidiary Race Merger, Inc. ("Race Merger") entered into a conditional merger agreement (the "Merger Agreement") with Wits Basin in respect of possible merger between the Group and Wits Basin (the "Possible Merger"). It was intended that the Possible Merger might involve an issue of approximately 3,345,286,315 shares of the Company (in form of American Depositary Shares) to the shareholders of Wits Basin in consideration of the transfer of all their shares in Wits Basin to the Group. Under the Merger Agreement, a break up fee of US$30,000,000 is required to be paid by the defaulting party to the non-defaulting party if the former is in breach of any representation, warranty, covenant set forth in the Merger Agreement which results in the latter to terminate the Merger Agreement. In addition, the defaulting party is required to reimburse the non-defaulting party 100% of its reasonable legal expenses up to US$500,000 actually incurred by it in connection with the Possible Merger.

On 15 August 2007, Wits Basin filed a declaratory judgement action in the District Court of the State of Minnesota against the Company and Race Merger pursuant to which Wits Basin seeks a declaration by the court that Wits Basin is entitled to terminate the Merger Agreement on the alleged grounds that there has been a material adverse change in the financial condition of the Group and the due diligence on the Group was not satisfactory. Wits Basin's claim was amended on 30 August 2007 to particularise their claim for alleged damages for the Group on the ground that the Group did not grant Wits Basin's request for consent to Wits Basin's proposed commercial transaction. The Group did not grant Wits Basin the said request for consent because Wits Basin failed to supply the Group with the necessary relevant information in relation to the proposed commercial transaction which the Group's United States lawyers has advised to be necessary before any granting of consent by the Group.

On 1 November 2007, the Group received a notice of termination of the Merger Agreement from Wits Basin's lawyers based on the aforesaid grounds. Based on the legal advice received from the Group's lawyers in the USA, the directors are of the view that Wits Basin's alleged grounds of termination of the Merger Agreement are without merit. The directors has instructed lawyers in the USA to advise them on the Wits Basin's claims and to claim from Wits Basin the break up fee of US$30,000,000, and also that all obligations under the Merger Agreement on the part of the Company and Race Merger have been discharged.

On 19 December 2007, the Company and Race Merger entered into a settlement agreement and general release ("Settlement and Release") with Wits Basin, pursuant to which the Merger Agreement was terminated and the Possible Merger with Wits Basin will not proceed. The major terms of the Settlement and Release are summarised below:

(a) The parties agree to dismiss the litigation previously started by Wits Basin on 15 August 2007 (the "Lawsuit"), including all claims, counterclaims, and defences, with prejudice and on the merits, without further costs or fees to any party;

(b) The parties agree that all written or oral agreements entered into between the parties prior to the execution of the Settlement and Release, including the Merger Agreement, are deemed terminated;

(c) Wits Basin, for itself and its officers, directors and shareholders, fully releases, acquits and discharges the Company and Race Merger and their predecessors, successors, parents, subsidiaries, representatives, attorneys, directors, officers, agents or insurers, of any and all claims, liabilities, causes of action, damages, costs, attorneys' fees, expenses, and compensation that Wits Basin may have in connection with the Lawsuit or the Merger Agreement; and

(d) The Company and Race Merger for themselves and their officers, directors, and shareholders, fully release, acquit and discharge Wits Basin and its predecessors, successors, parents, subsidiaries, representatives, attorneys, directors, officers, agents or insurers, of any and all claims, liabilities, causes of action, damages, costs, attorneys' fees, expenses, and compensation that the Company and/or Race Merger may have in connection with the Lawsuit or the Merger Agreement.

Details of the Possible Merger and the Settlement and Release were set out in the Company's announcements dated 30 November 2006, 1 February 2007, 6 February 2007, 30 March 2007, 17 July 2007, 20 August 2007, 6 November 2007 and 19 December 2007.

The Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 March 2008.

CHARGES ON GROUP ASSETS

The Group did not have any charges on assets as at 31 March 2008.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

During the year ended 31 March 2008, the Group spent approximately HK$35,182,000 on acquisition of property, plant and equipment (2007: approximately HK$45,246,000).

As at 31 March 2008, the Group had capital commitments in respect of capital expenditure contracted but not provided for of approximately HK$45,654,000 (31 March 2007: approximately HK$80,104,000); and capital expenditure authorised but not contracted for of approximately HK$384,636,000 (31 March 2007: approximately HK$347,771,000).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 March 2008 (31 March 2007: Nil).

SIGNIFICANT INVESTMENT

Apart from Huzhou Project, details of which are shown in section "Business Review" above, the Group did not have any significant investment plans or any significant investment held as at 31 March 2008.

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 2008, the Group employed approximately 185 full time management, technical, administrative staff and workers in Hong Kong and the PRC. Staff cost (including directors' emoluments) amounted to approximately HK$10,956,000 for the year under review (2007: approximately HK$10,851,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has adopted the Mandatory Provident Fund Scheme for the Hong Kong employees and has made contributions to the stated-sponsored pension scheme operated by the PRC 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, 23 June 2008

EXECUTIVE DIRECTORS

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

Mr. Kwong, aged 65, is an executive director, Chairman, Chief Executive Officer and authorised representative of the Company and a member and Chairman of the Executive Committee of the Board. He is also an executive director, President, Chief Executive Officer and authorised representative, and a member and Chairman of the Executive Committee of the board of directors of Easyknit International 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 50, is an executive director and Deputy Chairman of the Company and a member of the Executive Committee of the Board. She is also an executive director and Vice President, and a member of the Executive Committee of the board of directors of Easyknit International. Ms. Lui has been involved in the textiles industry for 30 years and has extensive experience in design, manufacturing, marketing and distribution of apparel. She serves as director of various subsidiaries of the Company and Easyknit International. Ms. Lui was appointed to the Board as an executive director in March 2003 and was appointed as Deputy Chairman on 20 January 2006.

NON-EXECUTIVE DIRECTOR

Mr. Tse Wing Chiu, Ricky

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kan Ka Hon

Mr. Kan, aged 57, is a member and Chairman of the Audit Committee of the Board and a member of the Remuneration Committee of the Board. He holds a Bachelor's Degree in Science from The University of Hong Kong and is a fellow member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. He has over 30 years of experience in accounting and finance. Mr. Kan is also an independent non-executive director of Victory City International Holdings Limited. Mr. Kan was appointed to the Board in April 2003.

Mr. Lau Sin Ming

Mr. Lau, aged 46, is a member and Chairman of the Remuneration Committee of the Board and a member of the Audit Committee of the Board. He is a fellow member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. He has over 26 years of experience in accounting and auditing. He is now working as an audit manager in Lam, Kwok, Kwan and Cheng C.P.A. Limited. Mr. Lau was appointed to the Board in September 2004.

Mr. Foo Tak Ching

Mr. Foo, aged 74, is a member of the Audit Committee and Remuneration Committee of the Board. He is currently a Partner of Messrs. Liu, Choi & Chan, a firm of solicitors and notaries in Hong Kong and has been 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 in1982. He is a Notary Public and a China Appointed Attesting Officer. Mr. Foo was appointed to the Board in April 2007.

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 2008, the Company 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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.

Code provisions B.1.3(a) and (b)

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the Code provision B.1.3 except that the Remuneration Committee should make recommendations to the Board on the Company's policy and structure for all remuneration of directors only (as opposed to directors and senior management under the Code provision B.1.3(a)); and should review (as opposed to determine under the Code provision B.1.3(b)) and make recommendations to the Board on the remuneration packages of executive directors only (as opposed to executive directors and senior management under the Code provision B.1.3(b)) for the following reasons:

1. the Remuneration Committee comprises only independent non-executive directors who are not involved in the daily operation of the Group. They may not be industry skilled due to their different backgrounds and professions and may not be knowledgeable about the prevailing remuneration packages for directors and senior management in the industry where the Company is operating. The Remuneration Committee is thus not in a position to properly determine the remuneration of the executive directors and senior management;

2. the Remuneration Committee members are not in a position to properly evaluate the performance of senior management due to their limited time involved in the Company's business. The evaluation process is more effectively carried out by the executive directors who devote most of their active business time to the business and affairs of the Group; and

3. the executive directors may not be able to take good control of their subordinates if they are not directly involved in evaluating and determining their subordinates' remuneration. As a result, the efficiency and effectiveness of the Company's operations may be affected.

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 2008.

BOARD OF DIRECTORS

The Board currently comprises six directors, with two 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*	(appointed as Chairman and Chief Executive Officer on 18 December 2007)
Ms. Lui Yuk Chu – *Deputy Chairman*	

Non-executive director:

Mr. Tse Wing Chiu, Ricky	(resigned as Chairman and Chief Executive Officer, and re-designated from an executive director to a non-executive director on 18 December 2007)

Independent non-executive directors:

Mr. Kan Ka Hon	
Mr. Lau Sin Ming	
Mr. Foo Tak Ching	(appointed on 2 April 2007)

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 2008, 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.

The Board met five times during the year ended 31 March 2008. The individual attendance records of the directors at the Board meetings are 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 are in compliance with the provisions set out in the Code, but with deviations from the Code provisions B.1.3(a) and (b). Details of such deviations are set out in the section headed "Corporate Governance Practices" above.

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; (ii) to make recommendations to the Board on the remuneration packages of all directors; (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.

During the year ended 31 March 2008, one Remuneration Committee meeting was held. The individual attendance records of the committee members are 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%

During the meeting, the Remuneration Committee reviewed and recommended the remuneration packages for each director of the Company for the year ended 31 March 2008 for the Board's approval.

The primary objective of the director remuneration policy is to attract, retain and motivate the Board members 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 directors' remuneration packages are determined with reference to the time commitment and responsibilities of individual directors, the Company's performance and the prevailing market conditions.

For the year ended 31 March 2008, the main components of the executive and non-executive directors' remuneration are 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 do not receive any discretionary bonus or other benefits from the Company for the year ended 31 March 2008. But each of them is entitled to a director's fee and is eligible for the Share Option Scheme subject to the approval of the shareholders of the Company.

During the year ended 31 March 2008, 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 are 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, Qualified Accountant, 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 2008, two Audit Committee meetings were held. The individual attendance records of the committee members are 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	0/2	0%

During the year ended 31 March 2008, 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 2007 and the interim results for the six months ended 30 September 2007; and (ii) reviewed the financial reports for the year ended 31 March 2007 and for the six months ended 30 September 2007 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 2008.

Executive Committee

The Executive Committee currently comprises all the executive directors of the Company, namely Mr. Kwong Jimmy Cheung Tim (Committee Chairman) and Ms. Lui Yuk Chu. 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.

AUDITIOR'S REMUNERATION

For the year ended 31 March 2008, the Auditor received approximately HK$887,000 for audit service and approximately HK$1,327,000 for non-audit services related to interim review, preliminary announcement of results, tax advisory 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 2008, except that Mr. Tse Wing Chiu, Ricky was re-designated from an executive director to a non-executive director effective 18 December 2007.

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 24 to 25.

The Auditor did not report for the year ended 31 March 2008 that there were any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

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 2008. 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.

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.

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31 March 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 30 to the consolidated financial statements. During the year under review, there were no significant changes in the Group's principal activities.

RESULTS

The results of the Group are set out in the consolidated income statement on page 26.

SHARE CAPITAL

The details of movements in the Company's share capital during the year are set out in note 23 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK$35 million on acquisition of property, plant and equipment. The details of the movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company had no reserves available for distribution at 31 March 2008.

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)*	(appointed as Chairman and Chief Executive Officer on 18 December 2007)
Lui Yuk Chu *(Deputy Chairman)*	

Non-executive director:

Tse Wing Chiu, Ricky	(resigned as Chairman and Chief Executive Officer, and re-designated from an executive director to a non-executive director on 18 December 2007)

Independent non-executive directors:

Kan Ka Hon	
Lau Sin Ming	
Foo Tak Ching	(appointed on 2 April 2007)

In accordance with the Company's Bye-law 99, Mr. Tse Wing Chiu, Ricky and Mr. Lau Sin Ming will retire from office at the forthcoming annual general meeting of the Company by rotation and, being eligible, have offered themselves 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

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

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. Furthermore, 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' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2008, 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:

Interests in the Company:

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	2,116,278,780	35.93%

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 2008, 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 are set out in note 25 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 2008 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 2008, 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 *(note i)*	Interest of spouse	2,116,278,780	35.93%
Landmark Profits Limited *(notes i and ii)*	Beneficial owner	2,116,278,780	35.93%
Easyknit International *(notes i and ii)*	Interest of controlled corporation	2,116,278,780	35.93%
Magical Profits *(notes i and iii)*	Interest of controlled corporation	2,116,278,780	35.93%
Accumulate More Profits Limited *(note i)*	Interest of controlled corporation	2,116,278,780	35.93%
Hang Seng Bank Trustee International Limited *(notes i & iv)*	Trustee	2,116,278,780	35.93%
Hang Seng Bank Limited *(note iv)*	Interest of controlled corporation	2,116,278,780	35.93%
The Hongkong & Shanghai Banking Corporation Limited *(note iv)*	Interest of controlled corporation	2,116,278,780	35.93%
HSBC Asia Holdings BV *(note iv)*	Interest of controlled corporation	2,116,278,780	35.93%
HSBC Asia Holdings (UK) *(note iv)*	Interest of controlled corporation	2,116,278,780	35.93%
HSBC Holdings BV *(note iv)*	Interest of controlled corporation	2,116,278,780	35.93%
HSBC Finance (Netherlands) *(note iv)*	Interest of controlled corporation	2,116,278,780	35.93%
HSBC Holdings plc *(note iv)*	Interest of controlled corporation	2,116,278,780	35.93%

Notes:

(i) The 2,116,278,780 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 2,116,278,780 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 & Shanghai Banking Corporation Limited. The Hongkong & Shanghai Banking Corporation Limited was wholly-owned by HSBC Asia Holdings BV which was a wholly-owned subsidiary of HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) was wholly-owned by HSBC Holdings BV which in turn was wholly-owned by HSBC Finance (Netherlands). HSBC Finance (Netherlands) was a wholly-owned subsidiary of HSBC Holdings plc.

Save as disclosed above, as at 31 March 2008, 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.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers of the Group accounted for approximately 59% of the Group's purchases and the largest supplier accounted for approximately 24% of the Group's purchases.

The five largest customers of the Group accounted for approximately 89% of the Group's turnover and the largest customer accounted for approximately 28% of the Group's turnover.

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 2008.

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 25 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.

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, 23 June 2008

Deloitte.
德勤

TO THE SHAREHOLDERS 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 26 to 67, which comprise the consolidated balance sheet as at 31 March 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement 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.

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 2008 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
23 June 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2008

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

At 31 March 2008

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

The consolidated financial statements on pages 26 to 67 were approved and authorised for issue by the Board of Directors on 23 June 2008 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 2008

	Share capital HK$'000	Share premium HK$'000	Convertible note equity reserve HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2006	3,927	199,632	—	53,194	714	2,051	(84,490)	175,028
Exchange differences arising on translation of foreign operations	—	—	—	—	—	5,087	—	5,087
Loss for the year	—	—	—	—	—	—	(11,481)	(11,481)
Total recognised income and expense for the year	—	—	—	—	—	5,087	(11,481)	(6,394)
Bonus issue by capitalisation of the share premium account *(see note 23(a))*	35,344	(35,344)	—	—	—	—	—	—
At 31 March 2007	39,271	164,288	—	53,194	714	7,138	(95,971)	168,634
Exchange differences arising on translation of foreign operations	—	—	—	—	—	10,573	—	10,573
Loss for the year	—	—	—	—	—	—	(17,811)	(17,811)
Total recognised income and expense for the year	—	—	—	—	—	10,573	(17,811)	(7,238)
Equity component of convertible note *(see note 22)*	—	—	4,128	—	—	—	—	4,128
Rights issue of shares *(see note 23(b))*	19,635	82,469	—	—	—	—	—	102,104
Transaction costs attributable to issue of new shares	—	(663)	—	—	—	—	—	(663)
At 31 March 2008	**58,906**	**246,094**	**4,128**	**53,194**	**714**	**17,711**	**(113,782)**	**266,965**

The capital reserve of the Group represents the credit arising from the reduction of share capital of the Company in March 2004 and September 2005 and can be applied in the future for distribution to the shareholders.

The contributed surplus of the Group represents the credit arising from the reduction of share capital of the Company in February 2003 which may then be utilised by the directors in accordance with the Company's Bye-laws and all applicable laws, including to eliminate the accumulated losses of the Company.

For the year ended 31 March 2008

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

For the year ended 31 March 2008

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section of the annual report.

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

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

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

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

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

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

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

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

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

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

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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.

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets

The Group's financial assets are loans and receivables.

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

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

The objective evidence of impairment could include:

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

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

For the year ended 31 March 2008

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.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Convertible note

Convertible note containing liability and equity components

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

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

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

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Impairment loss on tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

Retirement benefits costs

Payments to the state-sponsored pension scheme operated by the Mainland China (the "PRC") government or the Hong Kong Mandatory Provident Fund Scheme are charged as an expense as the employees have rendered the services entitling them to the contribution.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. CAPITAL RISK MANAGEMENT

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

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

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

5. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

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

For the year ended 31 March 2008

5. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, bills payable, bank loans and convertible note. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short-term bank deposits. Since the bank deposits are all short-term in nature, any future variation in interest rates will not have a significant impact on the results of the Group.

In addition, the Group's cash flow interest rate risk also relates primarily to variable-rate bank loans (see note 21 for details of these loans). It is the Group's policy to keep its bank loans at floating rates of interest so as to minimise the fair value interest rate risk.

Sensitivity analysis

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

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

(ii) Currency risk

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

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

5. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

Market risk – continued

(ii) Currency risk – continued

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

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

Sensitivity analysis

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

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

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

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

For the year ended 31 March 2008

5. 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 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In view of nature of business, the Group has targeted on a focused market. As at 31 March 2008, the Group has concentration of credit risk in the trade receivables balance amounting to HK$23,905,000 (2007: HK$37,720,000) derived from a few major customers. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade receivable at the balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

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

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

5. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity and interest risk tables

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

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

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

For the year ended 31 March 2008

5. FINANCIAL INSTRUMENTS – CONTINUED

c. Fair value

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

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

6. TURNOVER

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

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group's primary format for reporting segment information is business segments. For management purposes, the Group is currently organised into two main operating divisions - bleaching and dyeing, and knitting. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 March 2008

(i) **Consolidated income statement**

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

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS – CONTINUED

Business segments – continued

For the year ended 31 March 2008 – continued

(ii) **Consolidated balance sheet**

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

(iii) **Other information**

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS – CONTINUED

Business segments – continued

For the year ended 31 March 2007

(i) **Consolidated income statement**

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

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS – CONTINUED

Business segments – continued

For the year ended 31 March 2007 – continued

(ii) **Consolidated balance sheet**

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

(iii) **Other information**

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS – CONTINUED

Geographical segments

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

An analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located, is as follows:

	Carrying amount of segment assets		**Additions to property, plant and equipment**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**512**	1,567	**—**	—
PRC	**193,084**	173,920	**35,182**	45,246
	193,596	175,487	**35,182**	45,246

8. FINANCE COSTS

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

9. LOSS BEFORE TAXATION

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

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

	Kwong Jimmy Cheung Tim 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	300
Other emoluments							
– Salaries and other benefits	681	1,212	893	—	—	—	2,786
Total directors' emoluments	681	1,212	893	100	100	100	3,086

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – CONTINUED

(a) Information regarding directors' emoluments – continued

Details of emoluments to the directors of the Company for the year ended 31 March 2007 are as follows:

	Tse Wing Chiu, Ricky HK$'000	Lui Yuk Chu HK$'000	Kwong Jimmy Cheung Tim HK$'000	Kan Ka Hon HK$'000	Lau Sin Ming HK$'000	Total HK$'000
Fees	—	—	100	100	100	300
Other emoluments						
– Salaries and other benefits	1,200	1,200	—	—	—	2,400
Total directors' emoluments	1,200	1,200	100	100	100	2,700

(b) Information regarding employees' emoluments

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

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

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

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

For the year ended 31 March 2008

11. TAXATION

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

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

Pursuant to Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises in the PRC, the Company's subsidiaries in the PRC are entitled to preferential tax treatment with full exemption from PRC enterprise income tax for two years starting from the first profitable year of operations, after offsetting all tax losses brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% for the Company's PRC subsidiaries since 1 January 2008.

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

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

12. BASIC LOSS PER SHARE

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

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

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

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

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

13. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

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

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

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

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

13. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS – CONTINUED

(b) Compensation of key management personnel

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1 April 2006	23,195	2,367	1,423	3,633	30,618
Currency realignment	703	154	46	130	1,033
Additions	2,156	402	107	42,581	45,246
Disposal	(542)	(16)	(96)	—	(654)
At 31 March 2007	25,512	2,907	1,480	46,344	76,243
Currency realignment	—	—	—	4,447	4,447
Additions	542	24	575	34,041	35,182
Disposal	(39)	(16)	—	—	(55)
At 31 March 2008	**26,015**	**2,915**	**2,055**	**84,832**	**115,817**
DEPRECIATION					
At 1 April 2006	4,444	1,157	421	—	6,022
Currency realignment	242	108	16	—	366
Provided for the year	2,500	580	252	—	3,332
Eliminated on disposal	(242)	(12)	(59)	—	(313)
At 31 March 2007	6,944	1,833	630	—	9,407
Provided for the year	2,755	491	368	—	3,614
Eliminated on disposal	(22)	(13)	—	—	(35)
At 31 March 2008	**9,677**	**2,311**	**998**	**—**	**12,986**
CARRYING VALUES					
At 31 March 2008	**16,338**	**604**	**1,057**	**84,832**	**102,831**
At 31 March 2007	18,568	1,074	850	46,344	66,836

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

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

15. PREPAID LEASE PAYMENTS

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

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

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

16. INVENTORIES

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

17. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

17. TRADE AND OTHER RECEIVABLES – CONTINUED

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

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

Movement in the allowance for doubtful debts:

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

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

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

18. BANK BALANCES AND CASH

The amounts comprise bank balances and cash held by the Group and short-term bank deposits with an original maturity of three months or less, at prevailing market interest rates ranging from 0.01% to 3.33% (2007: 0.72% to 2.375%) per annum.

19. TRADE AND OTHER PAYABLES

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

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

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

20. BILLS PAYABLE

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

21. BANK LOANS

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

22. CONVERTIBLE NOTE

Convertible note containing liability and equity components

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

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

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

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

For the year ended 31 March 2008

23. SHARE CAPITAL

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

Notes:

(a) As announced by the Company on 2 May 2006, the Company proposed the followings:

(i) to increase the authorised share capital of the Company from HK$6,500,000 to HK$200,000,000 by the creation of an additional 19,350,000,000 shares of HK$0.01 each (the "Increase in Authorised Share Capital"); and

(ii) upon the Increase in Authorised Share Capital becoming effective, to issue 3,534,367,716 bonus shares of HK$0.01 each by way of capitalisation of an amount of HK$35,344,000 from the Company's share premium account on the basis of nine bonus shares for every share then held (the "Bonus Issue").

At the special general meeting of the Company held on 19 June 2006, resolutions approving the Increase in Authorised Share Capital and the Bonus Issue were passed. The Increase in Authorised Share Capital and Bonus Issue became effective on 19 June 2006 and 27 June 2006 respectively.

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

Details of the above are set out, inter alia, in the circular of the Company dated 19 May 2006.

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

24. DEFERRED TAXATION

At 31 March 2008, deductible temporary difference in respect of tax losses not recognised in the consolidated financial statements were HK$23,400,000 (2007: HK$22,915,000). No deferred tax asset has been recognised in respect of such deductible temporary difference due to the unpredictability of future profit streams. Included in the above are tax losses of HK$5,176,000 (2007: HK$4,691,000), which can only be carried forward for a maximum period of five years. Other losses may be carried forward indefinitely.

25. SHARE OPTION SCHEME

On 6 June 2002, a share option scheme (the “Share Option Scheme”) was approved by the shareholders of the Company. Under the terms of the Share Option Scheme, the board of directors of the Company may, at its absolute discretion, offer options to any employee (full-time and part-time), director, supplier, consultant or advisor of any member of the Group to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

The purposes of the Share Option Scheme are to attract and retain the best available personnel, to provide additional incentives to eligible participants and to promote the success of the business of the Company and its subsidiaries.

The maximum number of shares which may be issued under the Share Option Scheme must not (when aggregate with any shares to be issued under any other share option schemes of the Company) exceed 10% of the shares in issue at the date of adoption of the Share Option Scheme.

The maximum number of shares issuable upon the exercise of the share options granted to each eligible participant of the Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting of the Company with such grantee and his associate(s) abstaining from voting.

The exercise period of the share options is determined by the board of directors of the Company and shall end on a date which is not later than 10 years from the date of grant of the options. There is no specific requirement under the Share Option Scheme that an option must be held for any minimum period before it can be exercised, but its terms provide that the board of directors of the Company has the discretion to impose a minimum period at the time of offer of any particular option. The offer of a grant of share options may be accepted within 14 days from the date of the offer, with the payment of a nominal consideration of HK$1 in total by the offeree.

The exercise price in respect of any particular option of the Share Option Scheme may be determined by the board of directors of the Company in its absolute discretion and notified to each offeree but may not be less than the highest of (i) the closing price of the Company’s shares on the Stock Exchange as stated in the Stock Exchange’s daily quotations sheets on the date of offer, which must be a business day; (ii) the average closing price of the Company’s shares on the Stock Exchange as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Company’s shares on the date of offer.

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

No share options have been granted under the Share Option Scheme since its adoption.

26. CAPITAL COMMITMENTS

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

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

27. OPERATING LEASE ARRANGEMENTS

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

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

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

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

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

28. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

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

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

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

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

29. SIGNIFICANT EVENTS

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

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

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

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

30. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 March 2008 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share capital/paid-up registered capital/ stated capital	Proportion of nominal value of issued share capital/paid-up registered capital/ stated capital held by the Company		Principal activities
			Directly	Indirectly	
Easyknit (Mauritius) Limited	Republic of Mauritius/ Hong Kong	Stated US$1	100%	—	Investment holding
Po Cheong International Enterprises Limited	Hong Kong	Ordinary HK$90	—	100%	Investment holding
Tat Cheong International (HK) Limited	Hong Kong	Ordinary HK$2	—	100%	Investment holding
東莞永耀漂染有限公司 ("Wing Yiu") [1]	PRC	Registered HK$11,260,000	—	100%	Bleaching and dyeing
永義紡織（河源）有限公司 ("He Yuan") [2]	PRC	Registered US$1,000,000	—	100%	Knitting
永義製衣（湖州）有限公司 ("Huzhou Garment") [3]	PRC	Registered US$8,634,800	—	100%	Construction in progress of garment production plant for own use
永義紡織（湖州）有限公司 ("Huzhou Knitting") [4]	PRC	Registered US$3,313,846	—	100%	Construction in progress of knitting production plant for own use
永義漂染（湖州）有限公司 ("Huzhou Bleaching and Dyeing") [5]	PRC	Registered US$3,009,110	—	100%	Construction in progress of bleaching and dyeing production plant for own use

30. 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.

The above table lists the subsidiaries of the Company, which, in the opinion of the directors of the Company, principally affected the results of the year or constituted a substantial portion of the assets of the Group. To give details of other subsidiaries would result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at 31 March 2008.

31. POST BALANCE SHEET EVENT

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

RESULTS

	1.1.2003 to 31.3.2004 HK$'000	1.4.2004 to 31.3.2005 HK$'000	1.4.2005 to 31.3.2006 HK$'000	1.4.2006 to 31.3.2007 HK$'000	**1.4.2007 to 31.3.2008 HK$'000**
Turnover	5,083	53,662	58,039	75,964	**74,923**
(Loss) profit before taxation	(57,737)	6,104	(32,857)	(9,909)	**(14,979)**
Taxation	—	—	—	(1,572)	**(2,832)**
(Loss) profit for the period/year and attributable to equity holders of the Company	(57,737)	6,104	(32,857)	(11,481)	**(17,811)**

ASSETS, LIABILITIES AND MINORITY INTERESTS

			At 31 March		
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008 HK$'000**
Total assets	69,134	119,667	185,541	204,879	**333,349**
Total liabilities	(11,069)	(55,646)	(10,513)	(36,245)	**(66,384)**
	58,065	64,021	175,028	168,634	**266,965**
Equity attributable to equity holders of the Company	57,856	64,021	175,028	168,634	**266,965**
Minority interests	209	—	—	—	**—**
	58,065	64,021	175,028	168,634	**266,965**