The following discussion of the Group's financial condition and results of operations should be read in conjunction with the Group's combined financial information as of and for each of the three years ended 31 December 2010 and four months ended 30 April 2011, including the notes thereto, included in Appendix I to this prospectus. The financial statements have been prepared in accordance with HKFRSs. The following discussion contains certain forward-looking statements that involve risks and uncertainties. The Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk factors" and elsewhere in this prospectus.

OVERVIEW

The Group is a knitwear manufacturer established in Hong Kong for more than 17 years. It manufactures an extensive assortment of knitwear products ranging from classically styled wardrobe basics to high quality fashion apparel including but not limited to pullovers, cardigans, jackets, coats and skirts together with the knitted accessories such as knitted berets, scarves, gloves and hats which are categorised as womenswear, menswear and kidswear. The Group does not possess its own labels. All the Group's products are manufactured in accordance with the specifications and requirements set out by each of the Group's customers in the sale orders and/or designs recommended or inspired by the Group.

The Group's customers are mainly international apparel groups based in USA, Canada and European countries such as Germany and Switzerland with their products being sold in their respective chain stores or franchised stores under their labels, department stores and other specialty retailers around the world. For the three years ended 31 December 2010 and four months ended 30 April 2011, the Group's turnover derived from international apparel groups based in USA, European countries and Canada represented approximately 95.8%, 96.2%, 96.8% and 94.8% respectively.

During the Track Record Period, the Group recorded turnover of approximately HK$316,575,000, HK$304,499,000, HK$356,122,000 and HK$49,180,000 respectively. For each of the three years ended 31 December 2010, the Group recorded net comprehensive income of approximately HK$27,137,000, HK$22,227,000 and HK$27,703,000 respectively and for the four months ended 30 April 2011, the Group recorded net comprehensive expenses of HK$3,788,000.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the economic crisis which took place during the Track Record Period has not had an immediate and significant impact on the Group's business performance and the Group was able to obtain necessary banking facilities during the Track Record Period. Based on the amount of the confirmed sales orders placed by the customers from May to September 2011, which is in line with the trend in corresponding period in previous year, the Directors are of the view that, the Group's assets, operations, business, profits and cashflow have not been materially and adversely affected after the Track Record Period and up to the Latest Practicable Date despite the recent economic developments in Hong Kong, the PRC and elsewhere around the world. During the Track Record Period and up to the Latest Practicable Date, the Directors were not aware of any material cancellation of the confirmed orders, default payment of the customers, slowing down of orders or difficulty in obtaining or withdrawal of the banking facilities resulting from recent economic downturn in the US and some European countries and potential credit crisis in the PRC arising from the liquidity and capital problem of corporations in Wenzhou, Fujian Province, the PRC.

BASIS OF PRESENTATION

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows include the results and cash flows of the companies comprising the Group have been prepared as if the current group structure had been in existence throughout the Track Record Period or since their respective date of incorporation up to 30 April 2011. The combined statements of financial position of the Group as at 31 December 2008, 2009 and 2010 and 30 April 2011 have been prepared to present the assets and liabilities of the companies comprising the Group as if the current group structure had been in existence as at those dates.

FACTORS AFFECTING THE RESULTS OF OPERATIONS OF THE GROUP

The Group's results of operations and the period-to-period comparability of the Group's financial results have been, and will continue to be, affected by a number of factors including the following principal factors and those set out in the section headed "Risk factors" in this prospectus.

Demand for the Group's products

The Group's customers are mainly international apparel groups based in USA, Canada and the European countries with their products being sold in their respective chain stores or franchised stores under their labels, department stores and other specialty retailers around the world. Consumption demand for knitwear products in the global market largely determined by global economic conditions and the emergence of style-conscious, population in the developing countries is a key driver of the Group's turnover. The larger the population of style-conscious middle-class in the developing countries such as the PRC, the larger demand for the quality fashion apparel products. It is expected that the Group can benefit therefrom.

Price fluctuation of raw materials

The Group uses yarns mainly composed of wool or cotton, and other accessories such as buttons and zippers as its major raw materials for the manufacture of knitwear products. Costs of raw materials are the major components of the Group's cost of sales. During the Track Record Period, the costs of raw materials accounted for approximately 51.0%, 47.9%, 47.7% and 32.6% of the Group's total cost of sales respectively. As such, the price fluctuation of the raw materials is essential to the Group's business performance. Further details are set out in the paragraph headed "Potential fluctuation in the prices of raw materials" under the section headed "Risk factors" in this prospectus.

Cost of labour and availability of labour

The Group's production is labour intensive. As a result, the Group relies on a stable and cheap labour supply in the PRC. During the Track Record Period, the FC Factory's labour cost as well as the Processing Factory's labour cost included in the Processing Fees accounted for approximately 10.5%, 9.2%, 8.1% and 14.4% of the Group's cost of sales respectively. It is anticipated that there will be a continuous upward pressure on PRC's labour cost. If the Group is unable to identify and employ other appropriate means to reduce the labour cost, the results of the Group's operations may be affected. In view of this, the Group has ordered and installed 120 sets computerised knitting machines in FC Factory and 9 sets of computerised knitting machines in the Processing Factory, which has been commenced operations in the second quarter and in the third quarter of 2011 respectively and intends to acquire additional 100 sets of computerised knitting machines in the third quarter of 2012. Further details are set out in the paragraph headed "Increase in the cost of labour and the availability of labour" under the section headed "Risk factors" in this prospectus.

Seasonal fluctuation

The demand for the Group's knitwear products is subject to seasonal fluctuation. Generally, demand for knitwear products is relatively strong in Winter and the Group's customers normally place orders for the Winter collection in the second quarter to be delivered in the third quarter. As such, the Group's sales volume is normally higher from July to September. Accordingly, comparison between the Group's interim and annual results may not provide an objective indication of the quarterly performance of the Group. Further details are set out in the paragraph headed "Seasonal fluctuation in sales, negative net operating cash flow of the Group and net loss for the four months ended 30 April 2011" under the section headed "Risk factors" in this prospectus. In order to cope with the seasonal fluctuation, the Group has put much more emphasis on the design and development of yarn and knitwear products which are suitable for summer.

Competition

The Group is expected to face competition from existing and new players in the knitwear manufacturing industry in the PRC, Vietnam, Bangladesh and other countries even though the Directors believe that the Group's market position would not be threatened as these players mainly focus on low to middle end customers whereas the Group targets on high end customers and it maintains close business working relationships with the apparel brand owners. However, if the Group's customers cease to place orders with the Group or the Group fails to compete with other knitwear manufacturers, the Group's operations will be adversely affected. Further details please refer to the paragraph headed "Competitive market" under the section headed "Risk factors" in this prospectus.

SIGNIFICANT ACCOUNTING POLICIES

The Group's financial statements have been prepared in accordance with HKFRSs. The accounting policies and accounting estimates and judgements are set out in notes 3 and 4 to the Accountants' Report contained in Appendix I to this prospectus. The following are the most critical accounting policies and sources of estimation in preparing the financial statements of the Group.

Accounting policies

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of plant and equipment less their residual values over their estimated useful lives, if any, using the straight-line method. The estimate useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of 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 profit or loss 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.

Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of 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 in profit or loss.

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 in profit or loss.

Revenue recognition

(i) *Sale of goods*

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

Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title has passed.

Deposits received from customers prior to meeting the above criteria on revenue recognition are included in the combined statements of financial position under current liabilities.

(ii) *Interest income*

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 the that asset's net carrying amount on initial recognition.

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.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the combined statements of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequent remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of plant and equipment

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values, if any. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Impairment loss recognised in respect of plant and equipment and prepaid lease payments

The impairment loss for plant and equipment and prepaid lease payments are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of plant and equipment and prepaid lease payments have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue with a stable growth rate and a suitable discount rate. No impairment was provided during the Track Record Period.

PRINCIPAL COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME

Turnover

The Group's turnover represents sales value of knitwear products supplied to the Group's customers. The Group's knitwear products can be divided into three categories namely womenswear, menswear and kidswear and its sales volume is determined by customers' demand, prices of raw materials and average selling prices of the products.

The primary source of revenue during the Track Record Period was derived from the sales of womenswear, representing approximately 89.4%, 91.8%, 91.6% and 89.5% of the Group's turnover for the Track Record Period. The following table sets out the Group's turnover by product categories for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Turnover										
Womenswear	283,129	89.4	279,590	91.8	326,383	91.6	57,259	99.8	44,013	89.5
Menswear	32,616	10.3	23,584	7.8	29,739	8.4	107	0.2	5,167	10.5
Kidswear	830	0.3	1,325	0.4	—	—	—	—	—	—
Total	316,575	100.0	304,499	100.0	356,122	100.0	57,366	100.0	49,180	100.0

The following table sets out the total sales quantities of womenswear, menswear and kidswear for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	('000 units)	*('000 units)*	*('000 units)*	*('000 units)*	*('000 units)*
Total sales quantities					
Womenswear	2,208	2,756	2,853	546	426
Menswear	156	123	167	1	27
Kidswear	6	9	—	—	—
	2,370	2,888	3,020	547	453

The following table sets out the average selling price for womenswear, menswear and kidswear for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Average selling price *(Note 1)*	134	105	118	105	109
Womenswear *(Note 2)*	128	101	114	105	103
Menswear *(Note 2)*	209	192	178	107	191
Kidswear *(Note 2)*	138	147	—	—	—

Notes:

1. The average selling price represents the turnover for the financial year/period divided by the total sales quantities for the financial year/period.

2. The selling price of each of the product categories depends on (i) the complexity of the product design; (ii) the quantity of an order; (iii) the delivery schedule set out by the customers; and (iv) the prices of raw materials. Accordingly, the selling prices of knitwear products vary significantly.

The following table sets out the Group's turnover by headquarter's location of the customers for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (*unaudited*)	*%*	*HK$'000*	*%*
Turnover										
USA	236,119	74.6	228,948	75.2	270,664	76.0	50,897	88.7	37,178	75.6
Europe	50,586	16.0	46,402	15.2	52,022	14.6	1,923	3.3	6,385	13.0
Canada	16,496	5.2	17,703	5.8	22,065	6.2	3,311	5.8	3,064	6.2
Other countries *(Note)*	13,374	4.2	11,446	3.8	11,371	3.2	1,235	2.2	2,553	5.2
Total	316,575	100.0	304,499	100.0	356,122	100.0	57,366	100.0	49,180	100.0

Note: During the Track Record Period, other countries including but not limited to Japan, Hong Kong, Brazil, Singapore, Taiwan, Israel, India, South Korea, South Africa, United Arab Emirates and Australia.

Cost of sales

Cost of sales primarily consists of costs of raw materials, subcontracting fees paid to the subcontractors in the PRC, Processing Fees paid to the PRC Processing Party pursuant to the Processing Agreements, production overhead costs and direct labour costs. Costs of raw materials include the cost of yarn and other accessories including but not limited to buttons, zippers and labels and the production overheads include administrative staff costs relevant to production, messing expenses, depreciation of plant and equipment, packing materials and other miscellaneous production costs.

The following table sets out the Group's cost of sales by product categories for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (*unaudited*)	*%*	*HK$'000*	*%*
Cost of sales										
Womenswear	211,828	90.6	221,626	93.9	252,049	92.3	46,940	99.8	34,461	90.3
Menswear	21,612	9.2	13,603	5.8	21,064	7.7	85	0.2	3,711	9.7
Kidswear	517	0.2	703	0.3	—	—	—	—	—	—
Total	233,957	100.0	235,932	100.0	273,113	100.0	47,025	100.0	38,172	100.0

The following table sets out the breakdown of the Group's cost of sales for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Cost of sales										
Raw materials	119,391	51.0	112,910	47.9	130,287	47.7	19,927	42.4	12,442	32.6
Subcontracting fees	72,849	31.1	86,422	36.6	105,965	38.8	18,055	38.4	15,858	41.5
Processing Fees	21,191	9.1	19,879	8.4	21,720	8.0	5,147	10.9	6,138	16.1
Production overheads	12,400	5.3	10,740	4.6	10,417	3.8	2,679	5.7	3,035	8.0
Direct labour	8,126	3.5	5,981	2.5	4,724	1.7	1,217	2.6	699	1.8
Total	233,957	100.0	235,932	100.0	273,113	100.0	47,025	100.0	38,172	100.0

Processing Fees

The Processing Fees primarily represent (i) direct and indirect labour costs, utilities cost and factory's lease included as the components of the Group's cost of sales; and (ii) staff costs included as a component of the Group's administrative expenses. During the Track Record Period, the Processing Fees included in the cost of sales amounted to approximately HK$21,191,000, HK$19,879,000, HK$21,720,000 and HK$6,138,000 respectively, representing approximately 9.1%, 8.4%, 8.0% and 16.1% of the Group's total cost of sales.

The following table sets out the breakdown of the Processing Fees paid by the Group for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Processing Fees										
Cost of sales										
— Direct labour	14,507	52.3	13,730	50.8	15,207	48.8	3,149	40.3	3,985	40.4
— Utilities	3,107	11.2	2,538	9.4	2,768	8.9	740	9.5	779	7.9
— Indirect labour	1,889	6.8	1,992	7.4	2,105	6.7	718	9.2	808	8.2
— Processing Factory's rental	1,688	6.1	1,619	6.0	1,640	5.3	540	6.9	566	5.8
	21,191	76.4	19,879	73.6	21,720	69.7	5,147	65.9	6,138	62.3
Administrative expenses										
— Staff costs	6,537	23.6	7,147	26.4	9,456	30.3	2,663	34.1	3,719	37.7
Total	27,728	100.0	27,026	100.0	31,176	100.0	7,810	100.0	9,857	100.0

Gross profit and gross profit margin

The following tables set out the Group's gross profit and gross profit margin by product categories for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Gross Profit										
Womenswear	71,301	86.3	57,964	84.5	74,334	89.5	10,319	99.8	9,552	86.8
Menswear	11,004	13.3	9,981	14.6	8,675	10.5	22	0.2	1,456	13.2
Kidswear	313	0.4	622	0.9	—	—	—	—	—	—
Total	82,618	100.0	68,567	100.0	83,009	100.0	10,341	100.0	11,008	100.0

	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	%	*%*	*%*	*%*	*%*
Gross Profit Margin					
Womenswear	25.2	20.7	22.8	18.0	21.7
Menswear	33.7	42.3	29.2	20.6	28.2
Kidswear	37.7	46.9	—	—	—

Despite the fact that the Group does not own its own labels for its products, it is not just an OEM manufacturer which takes up orders from the customers according to their specifications and requirements. As disclosed in the section headed "Business" in this prospectus, the Group also provides value-added services to the customers such as designing and producing two collections of knitwear products every year to serve as a source of inspiration for the customers, gauging the global fashion trends and yarn development by means of market research, holding regular brainstorming meetings with the designers under the branded customers, and sourcing different raw materials and accessories based on the customers' requests. Given the comprehensive services provided by the Group to the customers as mentioned above, and coupled with the stable quality products provided by the Group and the strong relationship between the Group and each of its key customers, the Directors are of the view that the premium given by the customers to the Group is justified.

Other operating income

For the three years ended 31 December 2010, the Group's other operating income amounted to approximately HK$3,786,000, HK$6,260,000 and HK$6,421,000 respectively. For the four months ended 30 April 2010 and 2011, the Group's other operating income amounted to approximately HK$258,000 and HK$1,939,000 respectively. The other operating income for the year ended 31 December 2008 primarily represented interest income earned on bank deposits of approximately HK$426,000 and income derived from sales of leftover yarn of approximately HK$3,258,000. For the year ended 31 December 2009, the other operating income was made up of bank interest income of approximately HK$151,000, income derived from sales of leftover yarn of approximately HK$3,314,000 and a compensation income of approximately HK$2,330,000.

The compensation income of approximately HK$2.3 million was paid by a customer with long-term business relationship for compensating (i) the pre-production costs incurred by the Group for production of kidswear; and (ii) the decrease in the amount of sales orders as previously estimated and communicated with the Group in regular production meetings.

In 2008, the Group provided comprehensive design and development value-added services to such customer for its new product line (i.e. kidswear) and the customer has estimated and communicated with the Group the approximate amount of sale orders to be placed. The customers has started to place kidswear orders to the Group since then but subsequently in late 2009, it stopped placing kidswear orders to the Group because of the change in its business strategy. In view of the comprehensive pre-production services provided by the Group for the customers kidswear product line, the customer was willing to pay an one-off compensation of approximately HK$1.5 million to the Group to cover the pre-production costs incurred for production of kidswear.

The balance of the compensation income of approximately HK$0.8 million was also paid by the aforesaid customer for decrease in sales orders in 2009 as the customer has promised an upward trend in sales orders in the regular production meeting held with the Group in early 2009. Agreeing tentatively an estimated amount of sale orders for the coming season in the production meeting with customers is customary in the textile industry. Most of the key customers of the Group have discussed the estimated amount of sales orders with the Group but none of the circumstances resulted in, save for the incident as mentioned above, compensating the Group for material deviation between estimated and actual sales trends during the Track Record Period and the period thereafter up to the Latest Practicable Date.

For the year ended 31 December 2010, the other operating income was made up of interest income earned on bank deposits of approximately HK$228,000, income derived from sales of leftover yarn of approximately HK$5,527,000 and gain on disposal of plant and equipment of approximately HK$190,000.

For the four months ended 30 April 2011, the other operating income mainly represented (i) gain on disposal of plant and equipment of approximately HK$290,000; (ii) sales of leftover yarn of approximately HK$173,000; and (iii) gain on change in fair value of derivative financial instruments of approximately HK$812,000, details of the derivative financial instruments are set out in the paragraph headed "Forward Contract" in this section.

Selling and distribution expenses

Selling and distribution expenses primarily consist of (i) transportation costs for delivery of the products; (ii) quota fee; (iii) sample costs; (iv) laboratory charges; (v) compensation paid to customers for late delivery or defective products; (vi) insurance expenses; and (vii) other selling and distribution expenses. The following table sets out the breakdown of the Group's selling and distribution expenses for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Transportation	4,298	44.0	4,153	39.0	6,496	47.8	841	34.7	834	34.5
Quota fee	1,801	18.5	110	1.0	—	—	—	—	—	—
Samples	1,100	11.3	1,178	11.0	2,843	20.9	1,141	47.1	1,193	49.3
Laboratory charges	898	9.2	827	7.8	1,165	8.6	—	—	—	—
Compensation	163	1.7	2,257	21.2	735	5.4	9	0.3	26	1.1
Insurance	—	—	858	8.0	964	7.1	271	11.2	126	5.2
Others	1,499	15.3	1,276	12.0	1,386	10.2	162	6.7	239	9.9
Total	9,759	100.0	10,659	100.0	13,589	100.0	2,424	100.0	2,418	100.0

The Group's total selling and distribution expenses were approximately HK$9,759,000, HK$10,659,000 and HK$13,589,000 for the three years ended 31 December 2010 respectively, which accounted for approximately 3.1%, 3.5% and 3.8% of the Group's turnover. For the four months ended 30 April 2010 and 2011, the Group's total selling and distribution expenses were approximately HK$2,424,000 and HK$2,418,000, representing approximately 4.2% and 4.9% of the Group's turnover respectively.

Administrative expenses

Administrative expenses primarily consist of (i) staff costs relating to management and administrative personnel; (ii) Processing Fees relating to management and administrative personnel paid to the PRC Processing Party pursuant to the Processing Agreements; (iii) rental expenses for the FC Factory and the Group's headquarter in Hong Kong; (iv) travelling and entertainment expenses; (v) depreciation; (vi) auditors' remuneration; and (vii) other administrative expenses including professional fees. The following table sets out the breakdown of the Group's administrative expenses for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Staff costs	21,342	52.4	17,298	46.7	17,839	42.6	5,553	46.2	6,651	44.1
Processing Fees	6,537	16.1	7,147	19.3	9,456	22.6	2,663	22.2	3,719	24.6
Rental expenses	2,266	5.6	2,723	7.3	2,922	7.0	911	7.6	1,082	7.2
Travelling and entertainment	2,031	5.0	1,565	4.2	2,040	4.9	554	4.6	529	3.5
Depreciation	1,121	2.7	1,200	3.2	1,028	2.4	379	3.1	653	4.3
Auditors' remuneration	185	0.4	205	0.6	207	0.5	46	0.4	31	0.2
Others	7,266	17.8	6,939	18.7	8,365	20.0	1,914	15.9	2,423	16.1
Total	40,748	100.0	37,077	100.0	41,857	100.0	12,020	100.0	15,088	100.0

The Group's total administrative expenses amounted to approximately HK$40,748,000, HK$37,077,000 and HK$41,857,000 for the three years ended 31 December 2010 respectively, which accounted for approximately 12.9%, 12.2% and 11.8% of the Group's total turnover. For the four months ended 30 April 2010 and 2011, the Group's total administrative expenses were approximately HK$12,020,000 and HK$15,088,000, representing approximately 21.0% and 30.7% of the Group's turnover respectively.

Finance costs

The Group's finance costs represent interest expenses on the Group's bank borrowings and obligations under finance leases. The following table sets out the breakdown of the Group's finance cost for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Interest expenses on:										
— bank borrowings	424	96.1	70	63.6	375	92.1	5	33.3	147	93.6
— obligations under finance leases	17	3.9	40	36.4	32	7.9	10	66.7	10	6.4
	441	100.0	110	100.0	407	100.0	15	100.0	157	100.0

Income tax expense/(credit)

The following table sets out the breakdown of the Group's income tax expense/(credit) in the statement of comprehensive income for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Hong Kong Profits Tax					
— current year	8,138	4,593	5,179	287	112
PRC Enterprise Income Tax					
— current year	228	169	371	51	53
Deferred taxation	106	12	60	(1,045)	(720)
Total	8,472	4,774	5,610	(707)	(555)

Income tax expense or credit represents the tax expense or credit incurred in relation to the operations of the Group in Hong Kong and the PRC.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits for the three years ended 31 December 2010.

Under the EIT Law and the relevant implementation regulations, the applicable tax rate of Fung Ching is 25% for the Track Record Period. Since Fung Ching is a WFOE in the PRC, it is entitled to tax concessions whereby the profits for the first two financial years beginning on 1 January 2008 is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate prescribed by the PRC government.

Further details are set out in note 12 to the Accountants' Report in Appendix I to this prospectus.

RESULTS OF OPERATIONS

	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Turnover					
Womenswear	283,129	279,590	326,383	57,259	44,013
Menswear	32,616	23,584	29,739	107	5,167
Kidswear	830	1,325	—	—	—
	316,575	304,499	356,122	57,366	49,180
Cost of sales	(233,957)	(235,932)	(273,113)	(47,025)	(38,172)
Gross profit	82,618	68,567	83,009	10,341	11,008
Other operating income	3,786	6,260	6,421	258	1,939
Selling and distribution expenses	(9,759)	(10,659)	(13,589)	(2,424)	(2,418)
Administrative expenses	(40,748)	(37,077)	(41,857)	(12,020)	(15,088)
Profit/(loss) from operations	35,897	27,091	33,984	(3,845)	(4,559)
Finance costs	(441)	(110)	(407)	(15)	(157)
Profit/(loss) before taxation	35,456	26,981	33,577	(3,860)	(4,716)
Income tax (expense)/credit	(8,472)	(4,774)	(5,610)	707	555
Profit/(loss) for the year/period	26,984	22,207	27,967	(3,153)	(4,161)
Exchange differences arising on translation of foreign operations and total other comprehensive income/(expenses)	153	20	(264)	39	373
Total comprehensive income/(expenses) for the year/period, net of tax	27,137	22,227	27,703	(3,114)	(3,788)

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Four months ended 30 April 2011 compared to four months ended 30 April 2010

Turnover

The decrease in the Group's turnover of approximately 14.3% from HK$57,366,000 to HK$49,180,000 for the four months ended 30 April 2011 was primarily attributable to:

- a decrease of approximately 23.1% in the sales of womenswear; and
- an increase of approximately 47 times in the sales of menswear.

Womenswear

Decrease in the sales of womenswear of approximately 23.1% from HK$57,259,000 to HK$44,013,000 for the four months ended 30 April 2011 was primarily attributable to a decrease in sales volume of womenswear of approximately 22.0% from 546,000 units to 426,000 units in 2011. Such decrease was mainly due to the decrease of sales orders placed by customers offering lower profit margin as the Group has recently shifted its market focus from customers offering lower profit margin to those medium-to-high-end customers offering higher profit margin and the sales orders of higher profit margin cannot cover the decrease in the sales orders of lower profit margin.

Menswear

Increase in the sales of menswear of approximately 47 times from HK$107,000 to HK$5,167,000 for the four months ended 30 April 2011 was primarily attributable to significant increases in sales volume and selling prices of menswear.

The significant increase in sales volume and selling prices of menswear was primarily attributable to (i) more sales orders placed by existing customers as a result of the Group's continued provision of comprehensive design and development value-added services; and (ii) change in delivery schedule of products with higher profit margin to the first four months from the second to third quarter.

Cost of sales

A decrease in cost of sales of approximately 18.8% from HK$47,025,000 to HK$38,172,000 for the four months ended 30 April 2011 was primarily attributable to:

- a decrease of approximately 37.6% in cost of raw materials;
- a decrease of approximately 12.2% in subcontracting fees;
- an increase of approximately 19.3% in Processing Fees;

- an increase of approximately 13.3% in production overheads; and

- a decrease of approximately 42.6% in direct labour costs.

Costs of raw materials are the major component of the Group's cost of sales, representing approximately 42.4% and 32.6% of the total cost of sales for the periods ended 30 April 2010 and 2011 respectively. A decrease in costs of raw materials of approximately 37.6% on a period-on-period basis was primarily attributable to (i) a decrease in production volume of knitwear products for the four months ended 30 April 2011; and (ii) the customers' shift to use less costly yarn.

Decrease in the subcontracting fees of approximately 12.2% was in line with the decrease in sales for the period ended 30 April 2011 as described in the paragraph headed "Turnover" above, and the Group's strategy to reduce its subcontracting activities.

Processing Fees represented approximately 10.9% and 16.1% of the total cost of sales for the periods ended 30 April 2010 and 2011 respectively. Its increase of approximately 19.3% for the period was mainly due to the transitional period of the computerisation process being taken place by the Group in 2011. As less production staff was employed by Fung Ching in first quarter of 2011 due to the computerisation of knitting process and more acute labour shortage problem in Guangdong Province, more knitting procedures were temporarily shifted to be carried out by production staff of Processing Factory during such transitional period. As such, there was an increase in direct labour costs, which were calculated based on the piece rate pay to the production staff, of approximately 26.5% for the four months ended 30 April 2011.

An increase in production overheads of approximately 13.3% on a period-on-period basis was primarily attributable to depreciation of the newly acquired computerised knitting machines of the Group.

Direct labour costs represented approximately 2.6% and 1.8% of the total cost of sales for the periods ended 30 April 2010 and 2011 respectively. A decrease in direct labour costs, which are calculated based on the piece rate pay to the production staff, of approximately 42.6% was primarily attributable to (i) a decrease in sales for the period ended 30 April 2011 as described in the paragraph headed "Turnover" above; and (ii) a decrease in production staff mainly handling knitting and linking procedures, which are two of the most labour intensive procedures throughout the production as employed by Fung Ching due to the reasons set out above.

Gross profit and gross profit margin

Gross profit increased by approximately HK$667,000 or 6.5% on a period-on-period basis and the gross profit margin increased from approximately 18.0% to 22.4% for the period ended 30 April 2011, primarily attributable to the increase in gross profit margin of both womenswear and menswear during the period.

Womenswear

Decrease in gross profit of womenswear of approximately 7.4% from HK$10,319,000 to HK$9,552,000 was mainly attributable to decrease in sales of womenswear as detailed in the paragraph headed "Turnover" in this section and the increase in gross profit margin of womenswear from approximately 18.0% to 21.7% for the four months ended 30 April 2011 was mainly due to the shift of focus of the Group on customers offering higher profit margin as set out in the paragraph headed "Turnover" in this section. The gross profit of womenswear of 21.7% is lower than that for the year ended 31 December 2010 as the gross profit margin of the winter collection of the Group's products is normally higher than that of summer collection.

Menswear

Increase in gross profit of menswear of approximately 65 times from HK$22,000 to HK$1,456,000 and increase in gross profit margin of menswear from approximately 20.6% to 28.2% for the four months ended 30 April 2011, as detailed in the paragraph headed "Turnover" in this section, was mainly attributable to increase in the sales orders of menswear placed by the existing customers and the change of delivery schedule of menswear with higher profit margin from the second and third quarter to the first four months of the year.

Other operating income

The increase in other operating income of approximately 6.5 times from HK$258,000 to HK$1,939,000 for the four months ended 30 April 2011 was primarily attributable to (i) gain on disposal of plant and equipment of approximately HK$290,000; (ii) sales of leftover yarn of approximately HK$173,000; and (iii) gain on change in fair value of derivative financial instruments of approximately HK$812,000, details of the derivative financial instruments are set out in the paragraph headed "Forward Contract" in this section.

Selling and distribution costs

Selling and distribution costs remained relatively stable, representing approximately 4.2% and 4.9% of the Group's turnover for the periods ended 30 April 2010 and 2011 respectively.

Administrative expenses

Administrative expenses increased by approximately 25.5% from HK$12,020,000 to HK$15,088,000 for the period ended 30 April 2011, representing approximately 21.0% and 30.7% of the Group's turnover for the periods ended 30 April 2010 and 2011 respectively.

Staff costs relating to management and administrative personnel remained as the major components of administrative expenses, representing 46.2% and 44.1% of total administrative expenses for the four months ended 30 April 2010 and 2011 respectively. While the ratios of staff costs over the total administrative expenses recorded a slight decrease, there was an increase in staff costs of approximately HK$1,098,000 or 19.8% on a period-on-period basis, primarily due to an increase in number of senior management including engagement of chief financial officer for strengthening the financial operation of the Group, a business development director of sales and merchandising department and a purchasing manager of yarns department for attracting more potential PRC's customers for the Group through their network and monitoring the supply of raw materials respectively.

Processing Fees relating to the staff cost of management and administrative personnel of the Processing Factory represented approximately 22.2% and 24.6% of total administrative expenses for the periods ended 30 April 2010 and 2011 respectively. Such increase of approximately HK$1,056,000 or 39.7% on a period-on-period basis was primarily attributable to the general increase in labour cost in the PRC as well as an increase in number of administrative staff of the Processing Factory for mainly responsible for managing the sampling production of the Group with a view to attracting more potential customers by the provision of comprehensive pre order services, for example, the production of new sample collections to the potential customers.

Other administrative expenses including but not limited to rental expenses, travelling and entertainment expenses, depreciation and auditors' remuneration remained relatively stable and represented approximately 31.6% and 31.3% of total administrative expenses for the four months ended 30 April 2010 and 2011 respectively.

Loss from operations

Loss from operations increased by approximately 18.6% from HK$3,845,000 to HK$4,559,000 for the period ended 30 April 2011 as a result of the aggregate effects of all the fluctuations set out above.

Finance costs

Finance costs increased by approximately 9 times from HK$15,000 to HK$157,000 for the period ended 30 April 2011, primarily attributable to an increase in interest expenses on the Group's bank borrowings resulting from an increase in bank borrowings in 2011.

Income tax credit

Income tax credit decreased by approximately 21.5% from HK$707,000 to HK$555,000 for the four months ended 30 April 2011 and the Group's effective tax rate decreased from approximately 18.3% to 11.8% for the four months ended 30 April 2011. The decreases were primarily attributable to the tax effect of the tax loss not recognised of approximately HK$332,000 during the four months ended 30 April 2011.

Loss for the period

The first half-year is conventionally a slack season of knitwear market as demand for knitwear products are higher in Winter, which orders are normally placed in the second quarter of the year. Accordingly, turnover generated in the first half of the year is relatively lower than the second half of the year and thus the Group recorded losses of approximately HK$4,161,000 for the four months ended 30 April 2011, taking into account the fixed expenses incurred during the same period.

Increase in loss for the period of approximately 32.0% from HK$3,153,000 to HK$4,161,000 for the period ended 30 April 2011 was primarily attributable to the aggregate effects of the fluctuations set out above, in particular, the increase in administrative expenses due to an increase in the number of staff for facilitating the expansion plan to be carried out by the Group.

YEAR-TO-YEAR COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2010 compared to year ended 31 December 2009

Turnover

The increase in the Group's turnover of approximately 17.0% from HK$304,499,000 to HK$356,122,000 for the year ended 31 December 2010 was primarily attributable to:

- an increase of approximately 16.7% in the sales of womenswear; and
- an increase of approximately 26.1% in the sales of menswear.

Womenswear

Womenswear was a significant revenue stream to the Group. Turnover generated from the sales of womenswear increased by approximately 16.7% from HK$279,590,000 to HK$326,383,000 for the year ended 31 December 2010, which was primarily due to (i) an increase of approximately 3.5% in sales quantities of womenswear from approximately 2,756,000 units to 2,853,000 units; and (ii) an increase of approximately 12.9% in average selling prices from approximately HK$101 to HK$114.

The slight increase in sales quantities of womenswear in 2010 was primarily attributable to more sales orders placed by existing customers of the Group and more active marketing activities implemented by the Group during the year.

The Group has provided more comprehensive design and development value-added services to the customers during 2010 as detailed in sub-section headed "Design and development" under the section headed "Business" in this prospectus. It was therefore able to charge relatively higher selling prices for the products in 2010 as compared with 2009. In addition, the Group has implemented better marketing strategy during 2009 to explore potential customers offering higher profit margin, which has also contributed to an increase in average selling prices of womenswear in 2010.

Menswear

The increase of approximately 26.1% in the turnover of menswear from HK$23,584,000 to HK$29,739,000 for the year ended 31 December 2010 was mainly due to an increase of approximately 35.8% in sales quantities of menswear from approximately 123,000 units to 167,000 units which was partially offset by a decrease of approximately 7.3% in average selling prices from approximately HK$192 to HK$178.

The Group has implemented more active marketing activities during 2009. Thus, these resulted in more sales orders placed by both new and existing customers and contributed to an increase in sales quantities of menswear of 35.8% in 2010.

The decrease in average selling prices of 7.3% was primarily attributable to (i) orders with lower profit margin to the Group placed by certain existing customers due to the change in their business strategies; and (ii) orders with comparatively lower average selling prices placed by a new medium end menswear customer which contributed approximately 26.6% of sales of menswear for the year ended 31 December 2010.

Kidswear

Sales of kidswear recorded in 2008 and 2009 respectively were solely derived from a customer with long-term business relationship with the Group. Such customer has stopped placing kidswear orders to the Group since 2010 as a result of the change in its business strategy and it has subsequently paid an one-off compensation amounted to approximately HK$1.5 million to the Group as detailed in the paragraph headed "Other operating income" in this section. The Company will not be actively involved in the promotion of kidswear to its customers. It will manufacture kidswear products if it receives sales orders from its customers in the future.

Cost of sales

An increase in cost of sales of approximately 15.8% from HK$235,932,000 to HK$273,113,000 for the year ended 31 December 2010 was primarily due to:

- an increase of approximately 15.4% in cost of raw materials;
- an increase of approximately 22.6% in subcontracting fees;
- an increase of approximately 9.3% in Processing Fees;
- a decrease of approximately 3.0% in production overheads; and
- a decrease of approximately 21.0% in direct labour costs.

Costs of raw materials represented approximately 47.9% and 47.7% of total cost of sales for the years ended 31 December 2009 and 2010 respectively. An increase in costs of raw materials of approximately 15.4% on a year-on-year basis was primarily due to the combined effect of (i) an increase in quantities of knitwear products produced by the Group for the year ended 31 December 2010 as shown in the table under subparagraph headed "Turnover" above in this section; (ii) an increase in average selling prices of raw materials by approximately 1%; and (iii) an increase in the order quantity of yarn by approximately 10% due to higher proportion of winter knitwear products in 2010 as compared to the previous year.

Subcontracting fees represented approximately 36.6% and 38.8% of total cost of sales for the years ended 31 December 2009 and 2010 respectively. For the year ended 31 December 2010, the subcontracting fees increased by approximately 22.6% which was mainly attributable to the increasing demand for outsourcing the knitting procedures to other subcontractors by the Group driven by the labour shortage in Guangdong Province in 2009 and 2010 and general inflation of labour costs in the PRC. In addition, as the Group's customers requested more complicated and sophisticated knitting patterns produced by computerised knitting machines during 2009 and 2010 and the Group has only 20 sets of computerised knitting machines in October 2010 which is not enough to cater for the growing demand, the Group had to outsource most of its production procedures to the subcontractors. As the Group has installed 20 sets of computerised knitting machines in September 2010, the cost saving effect from computerisation of the knitting process was not significant and the Group recorded a decrease in labour costs in connection with knitting process of merely HK$0.1 million in 2010.

Processing Fees represented approximately 8.4% and 8.0% of total cost of sales for the years ended 31 December 2009 and 2010 respectively. An increase in Processing Fees of approximately 9.3% on a year-on-year basis was primarily attributable to (i) an increase in orders placed by the Group's customers in 2010; and (ii) the average salary increment of approximately 36%. These effects were partially offset by the decrease in the average number of production staff employed by the Processing Factory during the year of approximately 13% from 663 to 580 in 2010.

Production overheads remained relatively stable and represented approximately 4.6% and 3.8% of total cost of sales for the years ended 31 December 2009 and 2010 respectively.

Direct labour costs represented approximately 2.5% and 1.7% of total cost of sales for the years ended 31 December 2009 and 2010 respectively. A decrease in direct labour costs of approximately 21.0% on a year-on-year basis was primarily attributable to an increase in subcontracting arrangements with the subcontractors of the Group resulting from (i) larger demand for computerised knitting machines to cater for the orders of more complicated and sophisticated knitting patterns; and (ii) the decrease in average number of production staff employed by Fung Ching during the year of approximately 39% from 350 to 214. These effects were partially offset by the average salary increment of approximately 30% during the year.

Gross profit and gross profit margin

Gross profit increased by approximately HK$14,442,000 or 21.1% on a year-on-year basis and the gross profit margin increased from approximately 22.5% to 23.3% for the year ended 31 December 2010. The Group derived approximately 91.8% and 91.6% of its turnover from sales of womenswear in 2009 and 2010 respectively, and thus gross profit and gross profit margin of the Group were primarily affected by those of womenswear.

The increase in the Group's gross profit of 21.1% was primarily attributable to the increase in gross profit of womenswear of approximately 28.3% in 2010.

Despite the fact that the gross profit margin of menswear decreased from approximately 42.3% to 29.2% and no sales of kidswear, which is the product category with higher gross profit margin, was recorded during 2010, the Group's gross profit margin increased from approximately 22.5% to 23.3% in 2010 as a result of the increase in the gross profit margin of womenswear from approximately 20.7% to 22.8% in 2010.

Womenswear

Gross profit of womenswear increased by approximately 28.2% from HK$57,964,000 to HK$74,334,000 and gross profit margin of womenswear increased from approximately 20.7% to 22.8% for the year ended 31 December 2010. As detailed under the paragraph headed "Turnover" in this section, the Group was able to charge relative higher selling prices for its products due to the provision of comprehensive design and development value-added services to its customers. Despite the cost of raw materials for womenswear increased by approximately 6.9%, the Group recorded an increase in gross profit margin of womenswear due to the increase in average selling price of womenswear of approximately 12.9% in 2010. The improvement in gross profit margin of womenswear was partially offset by the fall in gross profit margin of menswear as described below, resulting in a slightly increase in the overall gross profit margin the Group in 2010.

Menswear

Gross profit of menswear decreased by approximately 13.1% from HK$9,981,000 to HK$8,675,000 and the gross profit margin decreased from approximately 42.3% to 29.2% for the year ended 31 December 2010. In addition to the decrease in the average selling prices of menswear as detailed under the paragraph headed "Turnover" in this section, the costs of raw materials for menswear rebounded by approximately 50.0% to the level in 2008 primarily due to the exceptionally fall in costs of raw materials for menswear by approximately 35.4% after the global financial crisis in 2009, resulting in the decrease in gross profit margin of menswear from approximately 42.3% to 29.2% in 2010.

Other operating income

The increase in other operating income of approximately 2.6% from HK$6,260,000 to HK$6,421,000 for the year ended 31 December 2010 was primarily due to the combined effect of (i) an increase in income derived from sales of leftover yarn of approximately 66.8% resulting from new arrangement and utilisation policy of leftover yarn implemented by the Group in 2010; and (ii) gain on disposal of plant and equipment of HK$190,000 recorded in 2010. Despite the obvious increase in income derived from sales of leftover yarn for the year ended 31 December 2010, the overall increase in the other operating income of the Group was merely 2.6%. The increase in other operating income was not significant in 2010 as the Group recorded an one-off compensation income of approximately HK$2,330,000 from one of its customers in 2009 driving the other operating income exceptionally high in that year.

Selling and distribution costs

Selling and distribution costs increased by approximately 27.5% from HK$10,659,000 to HK$13,589,000 for the year ended 31 December 2010, representing approximately 3.5% and 3.8% of the Group's turnover for the year ended 31 December 2009 and 2010 respectively.

Transportation costs for delivery of the Group's products to customers were the major components of selling and distribution costs. It accounted for 39.0% and 47.8% of total selling and distribution costs for the years ended 31 December 2009 and 2010 respectively. As there was an unusual high occurrence of delay in production and yarn supply in 2010 as compared to 2009, to minimise compensation expenses arising from late delivery, the Group increased its delivery of products by air freight instead of vessels, which drove up the transportation cost of the Group by approximately 56.4% in 2010.

The sample costs represented approximately 11.0% and 20.9% of total selling and distribution costs for the years ended 31 December 2009 and 2010 respectively. An increase in the sample costs of approximately 1.4 times on a year-on-year basis was in line with the business strategy adopted by the Group with a view to strengthening its design and development capabilities, details of which are set out in the paragraph headed "Business Strategies" in the section headed "Business" in this prospectus.

Laboratory charges represented costs incurred from the chemical tests on the knitwear products for quality assurance purpose. It remained relatively stable and represented approximately 7.8% and 8.6% of total selling and distribution costs for the years ended 31 December 2009 and 2010 respectively.

Compensation paid to customers for late delivery or quality defected products represented 21.2% and 5.4% of total selling and distribution costs for the years ended 31 December 2009 and 2010 respectively. A decrease in compensation paid to customers by approximately HK$1,522,000 was mainly due to an increase in delivery of knitwear products by air freight instead of vessels which minimised the compensation for late delivery.

Insurance expenses remained relatively stable and represented approximately 8.0% and 7.1% of total selling and distribution costs for the years ended 31 December 2009 and 2010 respectively.

Administrative expenses

Administrative expenses increased by approximately 12.9% from HK$37,077,000 to HK$41,857,000 for the year ended 31 December 2010, representing approximately 12.2% and 11.8% of the Group's turnover for the years ended 31 December 2009 and 2010 respectively.

Staff costs relating to management and administrative personnel remained as the major components of administrative expenses, representing 46.7% and 42.6% of total administrative expenses for the years ended 31 December 2009 and 2010 respectively. An increase in staff costs of approximately HK$541,000 or 3.1% on a year-on-year basis was primarily due to an increase in number of senior management for facilitating the expansion plan to be carried out by the Group.

Processing Fees relating to the staff cost of management and administrative personnel of the Processing Factory represented approximately 19.3% and 22.6% of total administrative expenses for the years ended 31 December 2009 and 2010 respectively. Such increase of approximately HK$2,309,000 or 32.3% on a year-on-year basis was primarily due to a general inflation of labour costs in the PRC.

Other administrative expenses, which mainly included rental expenses, travelling and entertainment expenses, depreciation and auditors' remuneration, remained relatively stable. It represented approximately 34.0% and 34.8% of total administrative expenses for the years ended 31 December 2009 and 2010 respectively.

Profit from operations

Profit from operations increased by approximately 25.4% from HK$27,091,000 to HK$33,984,000 for the year ended 31 December 2010 as a result of the aggregate effects of all the fluctuations set out above.

Finance costs

Finance costs increased by approximately 2.7 times from HK$110,000 to HK$407,000 for the year ended 31 December 2010, primarily due to an increase in interest expenses on the Group's bank borrowings resulting from an increase in bank borrowings for expansion of the Group during 2010.

Income tax expenses

Income tax expenses increased by approximately 17.5% from HK$4,774,000 to HK$5,610,000 for the year ended 31 December 2010. The Group's effective tax rate slightly decreased from approximately 17.7% to 16.7% in 2010, primarily due to a slight decrease in non-deductible expenses in 2010 as compared to 2009.

Profit for the year

Profit for the year increased by approximately 25.9% from HK$22,207,000 to HK$27,967,000 for the year ended 31 December 2010. As a percentage of total turnover, the profit for the year increased from 7.3% to 7.9% in 2010 which was mainly attributable to the increase in gross profit margin for the year.

Year ended 31 December 2009 compared to year ended 31 December 2008

Turnover

The Group's turnover decreased by approximately 3.8% from HK$316,575,000 to HK$304,499,000 for the year ended 31 December 2009 primarily as a result of:

- a decrease of approximately 1.2% in sales of womenswear;

- a decrease of approximately 27.7% in sales of menswear; and
- an increase of approximately 59.6% in sales of kidswear.

The Group's products were medium to high-end products. During the year ended 31 December 2009, the Group's turnover was affected by the impact of the global financial crisis and economic downturn as the end consumers were less-inclined towards purchasing medium to high-end products. In order to maintain the sales of womenswear, the primary source of revenue of the Group, the Group has implemented more active marketing strategy for womenswear segment and offered competitive prices to its key customers with long term business relationships. Despite the fact that the Group has also offered competitive prices to its menswear customers, the Group has recorded a decrease of approximately 27.7% in sales of menswear due to the shift of business focus towards developing the womenswear segment.

Womenswear

Sales of womenswear is the major revenue stream to the Group and represented approximately 89.4% and 91.8% of the Group's turnover for the years ended 31 December 2008 and 2009 respectively. Turnover of womenswear decreased by approximately 1.2% on a year-on-year basis primarily due to a decrease in average selling prices of approximately 21.1% from HK$128 to HK$101 offset by an increase in quantities of womenswear sold from approximately 2,208,000 units to 2,756,000 units representing an increase of approximately 24.8%. Accordingly, gross profit margin of womenswear decreased from approximately 25.2% to 20.7%.

In view of the sluggish global economy since the global financial crisis in 2008 and the downward pressure on the selling prices of the products, the Group primarily focused on developing the womenswear segment by implementing more marketing activities and offering competitive prices to its key customers with long term business relationships in 2009 in order to maintain the major revenue stream of the Group. Although the gross profit margin became thinner, the Group recorded an increase in sales quantities of womenswear.

Menswear

Turnover of menswear decreased by approximately 27.7% on a year-on-year basis. As discussed above, as the sales volume and selling prices of the products were under downward pressure in 2009 because of the global economic downturn, the sales quantities and average selling prices of menswear were adversely affected. In 2009, the Group recorded a decrease in sales quantities of menswear of approximately 21.2% and a decrease in average selling prices of approximately 8.1%, primarily due to the shift of the Group's business focus towards developing the womenswear segment as discussed above.

Kidswear

Turnover of kidswear increased by approximately HK$495,000 or 59.6% on a year-on-year basis, primarily due to more sales orders with sophisticated product design placed by the customer targeting to enhance its promotion of kidswear for the year ended 31 December 2009. Accordingly, these resulted in (i) an increase in sales quantities of kidswear by approximately 50% from approximately 6,000 units to 9,000 units; and (ii) an increase in average selling prices of kidswear by approximately 6.5% in 2009.

Cost of sales

Cost of sales increased by approximately 0.8% from HK$233,957,000 for the year ended 31 December 2008 to HK$235,932,000 for the year ended 31 December 2009, primarily as a result of:

- a decrease of approximately 5.4% in costs of raw material;
- an increase of approximately 18.6% in subcontracting fees;
- a decrease of approximately 6.2% in Processing Fees;
- a decrease of approximately 13.4% in production overhead costs; and
- a decrease of approximately 26.4% in direct labour costs.

Costs of raw material represented approximately 51.0% and 47.9% of total cost of sales for the years ended 31 December 2008 and 2009 respectively. A decrease in costs of raw materials of approximately 5.4% on a year-on-year basis was primarily attributable to (i) a decrease in average selling prices of raw materials by approximately 2% resulting from the global financial crisis in 2008; and (ii) a decrease in the order quantity of yarn by approximately 5% due to lower proportion of winter knitwear products in 2009 as compared to 2008. These effects were partially offset by the increase in quantities of knitwear products produced by the Group by approximately 21.9% for the year ended 31 December 2009.

Subcontracting fees represented approximately 31.1% and 36.6% of total cost of sales for the years ended 31 December 2008 and 2009 respectively. An increase in subcontracting fees of approximately 18.6% was primarily attributable to an increase in orders placed by customers which represents an increase in 21.9% of overall sales quantities as compared with 2008 and tight supply of labour in the Guangdong Province as described above.

Processing Fees represented approximately 9.1% and 8.4% of total cost of sales for the years ended 31 December 2008 and 2009 respectively. A decrease in Processing Fees of approximately 6.2% on a year-on-year basis was primarily attributable to reduction in production volume carried out in Processing Factory due to labour shortage in the Guangdong Province, driving the Processing Factory to outsource knitting procedures in larger scale to the subcontractors with computerized knitting machines. The average number of production staff employed by the Processing Factory during the year decreased by approximately 10% from 740 to 663 in 2009.

Production overheads remained relatively stable and represented approximately 5.3% and 4.6% of total cost of sales for the years ended 31 December 2008 and 2009 respectively. A decrease in production overheads was a result of effective cost control measures implemented by the Group in 2009.

Direct labour costs represented approximately 3.5% and 2.5% of total cost of sales for the years ended 31 December 2008 and 2009 respectively. A decrease in direct labour costs of approximately HK$2,145,000 or 26.4% on a year-on-year basis was primarily due to tight supply of labour in the Guangdong Province as described above, which was in line with the decrease in the average number of production staff employed by Fung Ching during the year of approximately 25% from 469 to 350 in 2009.

Gross profit and gross profit margin

The Group derived approximately 89.4% and 91.8% of its turnover from sales of womenswear in 2008 and 2009 respectively, and thus gross profit and gross profit margin of the Group were primarily affected by those of womenswear.

Gross profit decreased by approximately HK$14,051,000 or 17.0% on a year-on-year basis, primarily due to the decrease in gross profit of womenswear by approximately 18.7%.

The Group's gross profit margin decreased from approximately 26.1% to 22.5% in 2009, primarily due to the decrease in gross profit margin of womenswear from approximately 25.2% to 20.7%. In view of the sluggish global economy since the global financial crisis in 2008, the Directors intended to focus on the womenswear segment, the major revenue stream to the Group, by implementing more active marketing activities including but not limited to (i) conducting product roadshows to current and potential new clients in USA and Europe to showcase product strengths; (ii) participating in products fair organised by key customers to promote the Group's core competence; (iii) distributing seasonal trend books designed by the Group to raise customers' attention; (iv) demonstrating regular business update to maintain acquaintance with customers; and (v) offering competitive prices to its key customers with long term business relationships, which resulted in a decrease in gross profit margin of womenswear. In spite of the increase in gross profit margin of menswear from approximately 33.7% to 42.3% and gross profit margin of kidswear from approximately 37.7% to 46.9%, the Group's recorded a decrease in its gross profit margin as sales of menswear and kidswear only contributed approximately 7.8% and 0.4% to the turnover of the Group for the year ended 31 December 2009.

Womenswear

Gross profit of womenswear decreased by approximately 18.7% from HK$71,301,000 for the year ended 31 December 2008 to HK$57,964,000 for the year ended 31 December 2009 and gross profit margin of womenswear decreased from approximately 25.2% to 20.7% for the corresponding period. Due to the impact of the global financial crisis and economic downturn, the Group offered competitive prices to its key customers with long term business relationships, driving down the average selling prices of womenswear by approximately 21.1%. The decrease in average selling prices of womenswear contributed to the decrease in gross profit margin of womenswear, the effect of which was partially offset by the decrease in costs of raw materials for womenswear by approximately 20% due to the weak global economy in 2009. The drop in gross profit margin of womenswear was the major reason for the decrease in the Group's gross profit margin for the year ended 31 December 2009.

Menswear

Gross profit of menswear decreased by approximately 9.3% from HK$11,004,000 for the year ended 31 December 2008 to HK$9,981,000 for the year ended 31 December 2009. Gross profit margin of menswear increased from approximately 33.7% to 42.3%, primarily attributable to a decrease in costs of raw material of approximately 35.4% for production of menswear after the global financial crisis. The effect was partially offset by the decrease in average selling prices of menswear of approximately 8.1% as detailed under the subparagraph headed "Turnover" in this section.

Kidswear

Gross profit of kidswear increased by approximately 98.7% from HK$313,000 for the year ended 31 December 2008 to HK$622,000 for the year ended 31 December 2009. Gross profit margin of kidswear increased from approximately 37.7% to 46.9%, primarily due to the reason that the Group was able to outsource the manufacturing process at a lower cost after the global financial crisis, and that the customer was willing to pay higher price for the production of kidswear with sophisticated product design which drove up the average selling price of kidswear by approximately 6.5%.

Other operating income

Other operating income increased by approximately 65.3% from HK$3,786,000 for the year ended 31 December 2008 to HK$6,260,000 for the year ended 31 December 2009, primarily due to a compensation income of approximately HK$2,330,000 paid by a customer, details of which are set out in the subparagraph headed "Other operating income" in this section.

Selling and distribution costs

Selling and distribution costs increased by approximately 9.2% from HK$9,759,000 for the year ended 31 December 2008 to HK$10,659,000 for the year ended 31 December 2009, representing approximately 3.1% and 3.5% of the turnover for the years ended 31 December 2008 and 2009 respectively.

Transportation costs for delivery of the Group's products to customers accounted for the majority of selling and distribution costs, representing approximately 44.0% and 39.0% of total selling and distribution costs for the years ended 31 December 2008 and 2009 respectively. A slight decrease in transportation costs by approximately 3.4% on a year-on-year basis was mainly due to better logistic arrangement of the Group in 2009.

Quota fee represented approximately 18.5% and 1.0% of total selling and distribution costs for the years ended 31 December 2008 and 2009 respectively. A decrease in quota fee of approximately 93.9% was primarily due to the removal of the EU's and US's quota on textile products imported from the PRC in the end of 2007 and December 2008 respectively.

Sample costs remained relatively stable and represented approximately 11.3% and 11.0% of total selling and distribution costs for the years ended 31 December 2008 and 2009 respectively.

Laboratory charges remained relatively stable and represented approximately 9.2% and 7.8% of total selling and distribution costs for the years ended 31 December 2008 and 2009 respectively.

Compensation paid to customers for late delivery or defective products represented approximately 1.7% and 21.2% of total selling and distribution costs for the years ended 31 December 2008 and 2009 respectively. An increase in compensation of approximately HK$2,094,000 for the year ended 31 December 2009 was mainly due to an one-off compensation paid to one of the Group's customers for late shipment and defective products in 2009 of approximately HK$1,720,000.

Insurance expenses represented approximately 8.0% of the total selling and distribution costs for the year ended 31 December 2009 as a result of the increased coverage of insurance policy for the Group's to export sales since May 2009.

Administrative expenses

Administrative expenses decreased by approximately 9.0% from HK$40,748,000 for the year ended 31 December 2008 to HK$37,077,000 for the year ended 31 December 2009, representing approximately 12.9% and 12.2% of the turnover for the years ended 31 December 2008 and 2009 respectively.

Staff costs relating to management and administrative personnel accounted for the majority of administrative expenses, representing approximately 52.4% and 46.7% of total administrative expenses for the years ended 31 December 2008 and 2009 respectively. A decrease in staff costs of approximately HK$4,044,000 or 18.9% on a year-on-year basis was primarily due to a decrease in bonus for the year ended 31 December 2009 resulting from the cost saving measures implemented by the Group in 2009.

Processing Fees remained relatively stable and it represented approximately 16.1% and 19.3% of total administrative expenses for the years ended 31 December 2008 and 2009 respectively.

Other administrative expenses, including rental expenses, travelling and entertainment expenses, depreciation and auditors' remuneration, represented approximately 31.5% and 34.0% of total administrative expenses for the years ended 31 December 2008 and 2009 respectively.

Profit from operations

Profit from operations decreased by approximately 24.5% from HK$35,897,000 for the year ended 31 December 2008 to HK$27,091,000 for the year ended 31 December 2009 mainly as a result of the competitive environment and the weak stagnant global economy since 2008.

Finance costs

Finance costs decreased by approximately 75.1% from HK$441,000 for the year ended 31 December 2008 to HK$110,000 for the year ended 31 December 2009, primarily due to a decrease in interest expenses on the Group's bank borrowings as a result of repayment of bank borrowings during 2009.

Income tax expenses

Income tax expenses decreased by approximately 43.6% from HK$8,472,000 to HK$4,774,000 for the year ended 31 December 2009. The Group's effective tax rate decreased from approximately 23.9% in 2008 to 17.7% in 2009. Relatively higher effective tax rate in 2008, was primarily due to the tax effects of the expenses mainly composed of staff costs which were not allowed to be claimed for deduction for tax purpose as it could not match with the level of income of the Group.

On 29 July 2011, the Tax Consultant and the Sponsor's PRC legal advisers visited Changping Branch of Dongguan Municipal State Tax Bureau, being the in-charge tax authority of Fung Ching. The Tax Consultant and the Sponsor's PRC legal advisers obtained verbal confirmation from the chief of the division in-charge of Fung Ching's income tax that (i) Since 2007, the tax authority has been implementing an internal tax requirement that uni-functional manufacturing enterprise which merely produces products based on the instructions of the foreign enterprise should not be responsible for bearing losses arising from the additional costs of slow-moving inventory, idle staff, etc; and (ii) newly established manufacturing-oriented enterprises would be closely monitored and the tax authority would review their operation to see whether the costs and expenses could match with income as the tax authority considers reasonable.

Profit for the year

The global financial crisis in 2008 adversely affected the global economy and thus the Group's sales volume and selling prices of the products were under downward pressure. In response to the overall sluggish market sentiments and in order to retain its customers, the Group offered competitive selling prices to its key customers with long term business relationships leading the gross profit margin of the Group dropped from approximately 26.1% to 22.5% and the Group's profit for the year decreased by approximately 17.7% for the year ended 31 December 2009. As a percentage of total turnover, the profit for the year decreased from 8.5% to 7.3% in 2009 which was primarily attributable to the decreases in gross profit margin for the year. The effect was partially offset by (i) decreases in administrative expenses and income tax expenses; and (ii) an increase in other operating income during the year.

LIQUIDITY AND CAPITAL RESOURCES

The principal sources of liquidity and capital resources of the Group are the cash flow from operating activities and bank borrowings. The Group requires cash to fulfil the requirements of its working capital and capital expenditure.

The following table sets out a summary of the Group's cash flow for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Net cash generated from/(used in) operating activities	24,056	15,893	40,908	(1,622)	(16,272)
Net cash (used in)/generated from investing activities	(4,649)	(5,183)	(49,667)	(35,411)	(8,719)
Net cash (used in)/generated from financing activities	(11,044)	(1,235)	6,766	32,521	16,341
Net increase/(decrease) in cash and cash equivalents	8,363	9,475	(1,993)	(4,512)	(8,650)
Cash and cash equivalents at the beginning of the year/period	34,851	43,550	52,997	52,997	51,562
Effect on foreign exchange rates changes	336	(28)	558	39	314
Cash and cash equivalents at the end of the year/period	43,550	52,997	51,562	48,524	43,226

Cash flows from operating activities

The Group derives its cash inflow from operating activities principally from the receipt of payments for the sale of its products. The Group's cash outflow from operating activities is principally for the purchases of raw materials and payments of Processing Fees, subcontracting fees, staff and labour costs and rental expenses.

Four months ended 30 April 2011

Net cash used in operating activities for the four months ended 30 April 2011 was approximately HK$16,272,000 while the Group's loss before taxation for the same period was approximately HK$4,716,000. The difference of approximately HK$11,556,000 was primarily as a result of (i) an increase in inventories of approximately HK$19,022,000, primarily attributable to additional inventory stock in April 2011 for the peak production season from April to June 2011; (ii) a decrease in trade and other payables of approximately HK$6,229,000, primarily attributable to a decrease in subcontracting arrangements; and (iii) adjustment of gain on change in fair value of derivative financial instruments of approximately HK$812,000. These amounts were partially offset by (i) a decrease in trade and other receivables of approximately HK$13,156,000 which was in line with the decrease in sales due to the seasonal fluctuation; and (ii) add back of non-cash item of depreciation of plant and equipment of approximately HK$1,466,000.

Four months ended 30 April 2010

Net cash used in operating activities for the four months ended 30 April 2010 was approximately HK$1,622,000 while the Group's loss before taxation for the same period was approximately HK$3,860,000. The difference of approximately HK$2,238,000 was primarily as a result of (i) a decrease in trade and other receivables of approximately HK$17,090,000 which was in line with the decrease in sales due to seasonal fluctuation; and (ii) add back of non-cash item of depreciation of plant and equipment of approximately HK$795,000. These amounts were offset by an increase in inventories of approximately HK$15,431,000, primarily attributable to additional inventory stock in April 2010 for the peak production season from April to June 2010.

Year ended 31 December 2010

Net cash generated from operating activities for the year ended 31 December 2010 was approximately HK$40,908,000 while the Group's profit before taxation for the same period was approximately HK$33,577,000. The difference of approximately HK$7,331,000 was primarily as a result of (i) a decrease in trade and other payables of approximately HK$2,679,000, primarily due to the earlier settlement of trade payables by the Group; and (ii) an adjustment of income tax expenses of approximately HK$4,861,000. These amounts were offset by (i) add back of non-cash items of depreciation of plant and equipment of approximately HK$2,897,000; and (ii) a decrease in trade and other receivables of approximately HK$11,478,000, primarily attributable to exceptionally high level of end balance of trade receivables as at 31 December 2009 as one of the Group's customers placed an order beyond the normal ordering period in November and December 2009.

Year ended 31 December 2009

Net cash generated from operating activities for the year ended 31 December 2009 was approximately HK$15,893,000 while the Group's profit before taxation for the same period was approximately HK$26,981,000. The difference of approximately HK$11,088,000 was primarily as a result of (i) an increase in inventories of approximately HK$3,461,000, primarily attributable to an increase in purchase of raw materials for the increased sales orders placed in early 2010 as compared with the same period of 2009; (ii) an increase in trade and other receivables of approximately HK$4,327,000 due to an increase in sales in November and December 2009 as compared with the same period of 2008; and (iii) an adjustment of income tax expenses of approximately HK$6,670,000. These amounts were partially offset by add back of non-cash items of depreciation of plant and equipment of approximately HK$3,001,000.

Year ended 31 December 2008

Net cash generated from operating activities for the year ended 31 December 2008 was approximately HK$24,056,000 while the Group's profit before taxation for the same period was approximately HK$35,456,000. The difference of approximately HK$11,400,000 was primarily attributable to (i) an increase in inventories of approximately HK$2,003,000, representing finished goods amounted to approximately HK$4,204,000 to be delivered to the Group's customers as at 31 December 2008; (ii) an increase in trade and other receivables of approximately HK$6,554,000 primarily due to an increase in advances to the subcontractors in 2008; and (iii) an adjustment of income tax expenses of approximately HK$6,631,000. These amounts were partially offset by add back of non-cash item of deprecation of plant and equipment of approximately HK$3,122,000.

Cash flows from investing activities

The Group's cash outflow from investing activities primarily consists of the purchases of plant and equipment, payments for the acquisition of land use rights and leasehold land and repayment from or advances to related companies and Directors.

Four months ended 30 April 2011

Net cash used in investing activities for the four months ended 30 April 2011 was approximately HK$8,719,000, primarily as a result of (i) payment for the purchase of computerised knitting machines of approximately HK$5,750,000; and (ii) an increase in pledged bank deposits of approximately HK$3,000,000.

Four months ended 30 April 2010

Net cash used in investing activities for the four months ended 30 April 2010 was approximately HK$35,411,000, primarily as a result of advances to related companies of approximately HK$37,629,000 for acquisition of a property located in Kwun Tong which was leased to the Group as headquarter pursuant to the Headquarter Tenancy Agreement, which was partially offset by a decrease in pledged bank deposits of approximately HK$1,622,000.

Year ended 31 December 2010

Net cash used in investing activities for the year ended 31 December 2010 was approximately HK$49,667,000, primarily as a result of (i) the advances to related companies of approximately HK$33,910,000 for the acquisition of a property located in Kwun Tong which was leased to the Group as headquarter pursuant to the Headquarter Tenancy Agreement; (ii) the purchase of plant and equipment of approximately HK$12,537,000, representing payments for renovation works of the Group's headquarter and the purchases of computerised knitting machines for the FC Factory; and (iii) payments for the acquisition of state-owned land use rights of the Land of approximately HK$3,590,000. These amounts were partially offset by (i) repayment from Directors of approximately HK$1,494,000; and (ii) a decrease in pledged bank deposits of HK$1,622,000.

Year ended 31 December 2009

Net cash used in investing activities for the year ended 31 December 2009 was approximately HK$5,183,000, primarily as a result of the advances to related companies of approximately HK$9,163,000 for the down payment regarding the acquisition of a property located in Kwun Tong which was leased to the Group as headquarter pursuant to the Headquarter Tenancy Agreement. The amount was partially offset by (i) a decrease in pledged bank deposits of approximately HK$2,863,000; and (ii) repayment from Directors of approximately HK$1,870,000.

Year ended 31 December 2008

Net cash used in investing activities for 2008 was approximately HK$4,649,000, primarily as a result of (i) the advances to Directors of approximately HK$2,156,000; (ii) the purchase of motor vehicles of approximately HK$1,168,000 for facilitating the logistic arrangements of the Group; and (iii) an increase in pledged bank deposits of approximately HK$1,560,000.

Cash flows from financing activities

The Group derives its cash inflow from financing activities principally from bank borrowings. The Group's cash outflow from financing activities relates primarily to the Group's repayment of principal and interest on its bank borrowings, repayment of advances from Directors and payment of dividends.

Four months ended 30 April 2011

Net cash generated from financing activities for the four months ended 30 April 2011 was approximately HK$16,341,000, primarily as a result of (i) an increase in bank borrowings of approximately HK$12,999,000; and (ii) advance from Directors of approximately HK$3,569,000.

Four months ended 30 April 2010

Net cash generated from financing activities for the four months ended 30 April 2010 was approximately HK$32,521,000, primarily as a result of (i) proceeds from bank borrowings of HK$36,015,000, which was partially offset by (i) payment of dividends of approximately HK$1,700,000 and (ii) repayment of advances from Directors of approximately HK$1,709,000.

Year ended 31 December 2010

Net cash generated from in financing activities for 2010 was approximately HK$6,766,000, primarily as a result of proceeds from bank borrowings of HK$43,537,000, which was partially offset by (i) payment of dividends of approximately HK$21,700,000; (ii) repayment of advances from Directors of approximately HK$12,440,000; and (iii) repayment of bank borrowings of approximately HK$2,014,000.

Year ended 31 December 2009

Net cash used in financing activities for 2009 was approximately HK$1,235,000, primarily as a result of (i) repayment of bank borrowings of approximately HK$525,000; (ii) repayment of obligations under finance leases of approximately HK$315,000; and (iii) repayment of advances from Directors of approximately HK$285,000.

Year ended 31 December 2008

Net cash used in financing activities for 2008 was approximately HK$11,044,000, primarily as a result of (i) repayment of principal and interest on the bank borrowings of approximately HK$2,545,000; and (ii) payment of dividends of approximately HK$10,000,000. These amounts were partially offset by proceeds from issue of shares of approximately HK$2,000,000.

Net Current Assets

The following table sets out details of the Group's current assets and current liabilities as at the respective financial position dates below.

	As at 31 December			As at 30 April	As at 31 August
	2008	2009	2010	2011	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*
Current assets					
Inventories	20,299	23,760	23,115	42,137	50,572
Prepaid lease payment	—	—	302	315	317
Trade and other receivables	52,981	57,308	49,229	36,073	79,595
Amounts due from related companies	4,704	13,867	—	—	—
Amounts due from a Director	3,757	1,887	—	—	—
Derivative financial instruments	—	—	—	812	812
Pledged bank deposits	4,485	1,622	—	3,000	3,000
Bank balances and cash	43,550	52,997	51,562	43,226	41,614
	129,776	151,441	124,208	125,563	175,910
Current liabilities					
Trade and other payables	41,545	41,781	40,050	34,347	56,127
Dividends payables	—	—	4,830	4,830	—
Amounts due to Directors	12,725	12,440	—	3,569	6,524
Other borrowings	—	—	—	—	8,410
Bank borrowings	1,023	498	9,555	21,788	36,509
Obligations under finance leases — due within one year	300	210	210	210	210
Income tax payables	2,630	722	1,411	1,523	2,766
31 August 2011	58,223	55,651	56,056	66,267	110,546
Net current assets	71,553	95,790	68,152	59,296	65,364

As at 31 August 2011, being the latest practicable date for determining the Group's net current assets, the Group had net current assets of approximately HK$65,364,000. The components of the Group's current assets as at such date included inventories of approximately HK$50,572,000, trade and other receivables of approximately HK$79,595,000 and pledged bank deposits and bank balances and cash of approximately HK$44,614,000. The key components of the current liabilities included trade and other payables of approximately HK$56,127,000, other borrowings of approximately HK$8,410,000 and bank borrowings of approximately HK$36,509,000.

The Group's net working capital decreased during the four months ended 30 April 2011. The Group's net current assets position decreased from approximately HK$68,152,000 as at 31 December 2010 to HK$59,296,000, which was primarily attributable to (i) an increase in bank borrowings of approximately HK$12,233,000 due to the increase in import loan for additional inventory stock in April 2011 for the peak production season from April to June 2011; and (ii) a decrease in trade and other receivables of approximately HK$13,156,000 which was in line with the decrease in sales due to the seasonal fluctuation. These amounts were partially offset by an increase in inventories of approximately HK$19,022,000 as explained above.

The Group's net working capital decreased during the year ended 31 December 2010. The Group's net current assets position decreased from approximately HK$95,790,000 as at 31 December 2009 to HK$68,152,000 as at 31 December 2010, which was primarily as a result of (i) a decrease in trade and other receivables of approximately HK$8,079,000 as discussed in the subparagraph headed "Year ended 31 December 2010" under the paragraph headed "Liquidity and capital resources" in this section; (ii) a decrease in amounts due from related companies and Directors of approximately HK$15,754,000; (iii) proceeds from bank borrowings of approximately HK$9,057,000; and (iv) dividends payables of approximately HK$4,830,000. These amounts were partially offset by repayment of amounts due to Directors of approximately HK$12,440,000. The principal business of the related companies mentioned above involves investment holding and trading.

The Group's net working capital increased during the year ended 31 December 2009. The Group's net current assets position increased from approximately HK$71,553,000 as at 31 December 2008 to HK$95,790,000 as at 31 December 2009, primarily due to (i) an increase in advances to related companies of approximately HK$9,163,000 for the acquisition of the Group's headquarter in Hong Kong; (ii) a net increase in pledged bank deposits and bank balances and cash by approximately HK$6,584,000; (iii) an increase in trade and other receivables by approximately HK$4,327,000 as a result of sales growth in November and December 2009 as compared with the same period of 2008; and (iv) an increase in inventories of approximately HK$3,461,000 due to an increase in purchase of raw materials for the extra sales order placed in early 2010.

CONTRACTUAL OBLIGATIONS

The following table sets out the Group's contractual obligations as at the respective financial position dates below.

	As at 31 December			As at 30 April
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Operating lease commitments				
Within one year	3,179	4,193	3,308	5,173
More than one year, but not more than five years	2,914	—	4,188	7,103
	6,093	4,193	7,496	12,276

Capital commitments

	As at ended 31 December			As at 30 April
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure contracted for but not provided in the combined financial statements in respect of:				
Plant and equipment	—	—	26	31,436
Prepaid lease payment	341	340	352	—

HISTORICAL CAPITAL EXPENDITURE

The following table sets out the historical capital expenditure of the Group during the Track Record Period:

	As at 31 December			As at 30 April
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Historical capital expenditure				
Plant and equipment	2,769	904	12,537	5,750
Prepaid lease payments	—	—	3,590	325

The Group's capital expenditure for three years ended 31 December 2010 and the four months ended 30 April 2011 represented expenditure on plant and equipment and payments for the acquisition of land use rights of the Land.

FORWARD CONTRACTS

The Group entered into two non-deliverable structured forward contracts (the "Forward Contracts") with a bank (the "Bank") with identical terms on 23 March 2011 for hedging purpose. Each of the Forward Contracts comprises 24 forward exchange transactions at relevant determination dates (on each month end between August 2011 and July 2013). Pursuant to the terms of each of the Forward Contracts, on each of the 24 determination dates, (i) if the spot exchange rate of RMB/US$ is above a predetermined exchange rate (the "Predetermined Exchange Rate"), which is either (a) 6.59 RMB/US$ for the 1st to 12th transactions; or (b) 6.45 RMB/US$ for the 13th to 24th transactions, the Group will have to sell US$1,000,000 against RMB at the respective Predetermined Exchange Rate to the Bank; and (ii) if the spot exchange rate of RMB/US$ is below the Predetermined Exchange Rate (the "Condition"), the Group will receive a fixed amount of RMB30,000 from the Bank. The maturity date of each of the Forward Contracts is on 31 July 2013. Each of the Forward Contracts will be terminated on the date which is the 11th time the Condition is satisfied. There will be no early termination if the Condition is satisfied less than 11 times. Such contracts are derivative financial instruments which will be classified as financial instruments at fair value through profit or loss. The exposure of each transaction under each forward contract would be US$1,000,000 times the difference between spot exchange rate of RMB/US$ and the Predetermined Exchange Rate when the spot exchange rate of RMB/US$ is above the Predetermined Exchange Rate. There is no cap on the exposure.

Under HKAS 39, the Group must meet certain criteria in order to adopt hedge accounting. At the inception of entering into the Forward Contracts, the Group did not formally document in writing (i) its intention to apply hedge accounting; (ii) the identification of the hedging instrument, the hedged item or transaction; (iii) the nature of the risk being hedged; and (iv) the Group's assessment method on the hedging instrument's effectiveness. Thus, hedge accounting cannot be adopted for the Forward Contracts according to HKAS 39.

Save for the above-mentioned Forward Contracts, the Group has not entered into any other agreement or contract for hedging purpose during the Track Record Period. In view of the foreign exchange currency exposure of the Group, the Group in February 2011 entered into the aforesaid Forward Contracts for hedging purpose as its first trial under the Group's current hedging policy that involves, among other things, (i) compiling of historical foreign exchange rates and forward exchange rates data from banks by the finance department of the Group for the management's reference; (ii) closely monitoring the exchange rate fluctuations by collating the prevailing market information from different sources including newspapers and finance magazines by the chief financial officer of the Group; and (iii) setting requirement to seek the approval from one of the executive Directors before the execution of any forward foreign exchange contracts by the finance department of the Group. The Group will also devise additional procedures of the hedging policy prior to the Listing including, (i) a quarterly review report on the Group's foreign exchange risk exposure in light of the prevailing market situation and assessment on whether any foreign currency hedging contract is desirable in the market by the chief financial officer of the Group; and (ii) requirement to report to the Board on the hedging status during the quarterly meeting by the chief financial officer of the Group.

INVENTORY ANALYSIS

The following table sets out a summary of the Group's inventory balance as at the respective financial position dates below.

	As at 31 December			As at 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	972	5,982	10,572	15,634
Work-in-progress	15,123	11,630	8,211	21,645
Finished goods	4,204	6,148	4,332	4,858
	20,299	23,760	23,115	42,137

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. During the Track Record Period, the Group did not record any write-down of inventories.

During the Track Record Period, inventories were one of the major components of the Group's current assets, representing approximately 15.6%, 15.7%, 18.6% and 33.6% of the Group's total current assets as at 31 December 2008, 2009 and 2010 and 30 April 2011 respectively.

The Group's inventories increased from approximately HK$23,115,000 as at 31 December 2010 to HK$42,137,000 as at 30 April 2011, primarily attributable to additional inventory stock in April 2011 for the peak production season from April to June 2011. The Group's inventories decreased slightly by approximately 2.7% from approximately HK$23,760,000 as at 31 December 2009 to HK$23,115,000 as at 31 December 2010 as the sales in early 2011 was comparable to that of 2010. The Group's inventories increased by approximately 17.1% from approximately HK$20,299,000 as at 31 December 2008 to HK$23,760,000 as at 31 December 2009 as a result of an increase in purchase of raw materials for the extra sales orders placed in early 2010 as compared with the same period in 2009.

The following table sets out the Group's average inventory turnover days during the Track Record Period:

	Year ended 31 December			Four months ended 30 April
	2008	**2009**	**2010**	**2011**
Average inventory turnover days *(Note)*	30	34	31	132

Note: Average inventory turnover days for each of the years ended 31 December 2008, 2009 and 2010 = 365 x (average of the year beginning and ending inventory balances)/(cost of sales). Average inventory turnover days for the four months ended 30 April 2011 = 120 x (period ending inventory balances)/cost of sales.

The Group's average inventory turnover days were 30, 34 and 31 for the three years ended 31 December 2010 and 132 for the four months ended 30 April 2011 respectively. The increase in average turnover days over the period ended 30 April 2011 and year ended 31 December 2010 was primarily attributable to (i) the increase in inventories as at 30 April 2011 due to the additional inventory stock in April 2011 for the peak production season from April to June 2011; and (ii) a relatively lower cost of sales recorded during the four months ended 30 April 2011 due to the seasonal factors as aforesaid. As such, the average inventory turnover days for the four months ended 30 April 2011 is significantly higher than that for the year ended 31 December 2010. The decrease in average turnover days over the year ended 31 December 2009 and 2010 was primarily due to the combined effect of (i) the comparable inventories of HK$23,760,000 and HK$23,115,000 as at 31 December 2009 and 2010 respectively as described above; and (ii) the increase in cost of sales in 2010 of approximately 15.8% whilst the increase in the average inventory turnover days over the year ended 31 December 2008 and 2009 was primarily due to an increase in inventories as at 31 December 2009 as described above.

As at the Latest Practicable Date, approximately 96% of the Group's inventories as at 30 April 2011 had been used or sold.

TRADE RECEIVABLES ANALYSIS

Trade receivables are initially recognised at fair value and thereafter stated as amortised cost, using the effective interest method, less any identified impairment losses. During the Track Record Period, the Group did not record any impairment losses on trade receivables.

The Group's trade receivables represented approximately 24.2%, 25.4%, 23.9% and 15.1% of the Group's total current assets as at 31 December 2008, 2009 and 2010 and 30 April 2011 respectively.

The following table sets out the Group's trade receivable balances as at the respective financial position dates below.

	As at 31 December			As at 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	31,455	38,501	29,709	18,930

The Group's trade receivable decreased by approximately 36.3% from approximately HK$29,709,000 as at 31 December 2010 to HK$18,930,000 as at 30 April 2011 which was in line with the decrease in sales due to the seasonal fluctuation. The Group's trade receivables decreased by approximately 22.8% from approximately HK$38,501,000 as at 31 December 2009 to HK$29,709,000 as at December 2010, primarily attributable to exceptionally higher level of sales recorded in the end of 2009 as compared with the same period of 2010, as a result of an extra sales order placed by one of the Group's customers during November and December 2009. The Group's trade receivables increased by approximately 22.4% from approximately HK$31,455,000 as at 31 December 2008 to HK$38,501,000 as at 31 December 2009, primarily attributable to the same reason set out above.

The following table sets out the Group's average trade receivables turnover days during the Track Record Period:

	Year ended 31 December			Four months ended 30 April
	2008	**2009**	**2010**	**2011**
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 2)*
Average trade receivables turnover days	36	42	35	46

Notes:

1. Average trade receivable turnover days for each of the years ended 31 December 2008, 2009 and 2010 = 365 x (average of the year beginning and ending trade receivables balances)/revenue.

2. In view of the distorting effect of the relatively higher-ending balance of the trade receivables as at 31 December 2010, the average trade receivables turnover days for the four months ended 30 April 2011 was calculated by dividing the trade receivables as at 30 April 2011 by revenue for the four months ended 30 April 2011 times 120 days.

The Group's average trade receivables turnover days were, 36, 42 and 35, for the three years ended 31 December 2010 and 46 for the four months ended 30 April 2011, respectively. The average trade receivables turnover days increased from approximately 35 days for the year ended 31 December 2010 to 46 days for the four months ended 30 April 2011 was primarily attributable to (i) a relatively lower turnover during the first quarter of 2011 due to seasonal factor (ii) the relatively higher balance of trade receivables as at 30 April 2011 as the turnover of April is conventionally higher. The average trade receivables turnover days decreased from approximately 42 days to 35 days for the year ended 31 December 2010, which was primarily due to the combined effect of (i) a slight decrease in average trade receivables for the year 2010; and (ii) an increase in turnover in 2010 of 17.0% as compared with 2009. The average trade receivables turnover days increased from approximately 36 days for the year ended 31 December 2008 to 42 days for the year ended 31 December 2009, which was primarily due to the combined effect of (i) an increase in average trade receivables for the year 2009 as a result of an increase in trade receivables as at 31 December 2009 as described above; and (ii) a decrease in turnover in 2009 of 3.8% as compared with 2008.

As at the Latest Practicable Date, the Group's trade receivables as at 30 April 2011 had been fully settled.

The Group generally allows an average credit period of 0 to 45 days to its customers. The following table sets out the aging analysis of the Group's trade receivable balances based on the invoice dates, net of impairment losses, as at the respective financial position dates below.

	As at 31 December			**As at 30 April**
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 45 days	30,282	36,355	28,096	16,841
46 to 90 days	746	1,893	1,552	2,037
91 to 365 days	427	11	61	52
Over 365 days	—	242	—	—
	31,455	38,501	29,709	18,930

TRADE PAYABLES ANALYSIS

Trade payables are initially recognised at fair value and thereafter stated at amortised costs, using the effective interest method.

The following table sets out the Group's trade payables balances based on the invoice dates as at the respective financial position dates below grouped by their ages.

	Year ended 31 December			Four months ended 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 90 days	22,163	21,353	18,318	13,807
91 to 365 days	1,093	481	614	84
Over 365 days	33	856	864	862
	23,289	22,690	19,796	14,753

During the Track Record Period, credit periods granted by the Group's suppliers are in general in the range of 30 to 90 days.

The Group's trade payables decreased by around 2.6% from approximately HK$23,289,000 as at 31 December 2008 to HK$22,690,000 as at 31 December 2009 and decreased by approximately 12.8% from approximately HK$22,690,000 for the year ended 31 December 2009 to HK$19,796,000 for the year ended 31 December 2010. The decreases in trade payables were primarily as a result of earlier settlement of trade payables by the Group upon requests of the subcontractors. The Group's trade payables decreased by approximately 25.5% from approximately HK$19,796,000 as at 31 December 2010 to HK$14,753,000 as at 30 April 2011, primarily attributable to a decrease in subcontracting arrangements with subcontractors of the Group during the four months ended 30 April 2011 due to the seasonal fluctuation and computerisation of knitting process of the Group.

As at the Latest Practicable Date, approximately 93% of the Group's trade payables as at 30 April 2011 had been settled.

The following table sets out the Group's average trade payables turnover days during the Track Record Period:

	Year ended 31 December			Four months ended 30 April
	2008	**2009**	**2010**	**2011**
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 2)*
Average trade payables turnover days	29	36	28	46

Notes:

1. Average trade payables turnover days for each of the years ended 31 December 2008, 2009 and 2010 = 365 x (average of the period beginning and ending trade payables balances)/cost of sales.

2. In view of the distorting effect of the relatively higher ending balance of the trade payables as at 31 December 2010, trade payables turnover days for the four months ended 30 April 2011 was calculated by dividing the trade payables as at 30 April 2011 by cost of sales for the four months ended 30 April 2011 times 120 days.

The Group's average trade payables turnover days were 29, 36 and 28 for the three years ended 31 December 2010 and 46 for the four months ended 30 April 2011, respectively. The average trade payables turnover days increased from 28 days for the year ended 31 December 2010 to 46 days for the four months ended 30 April 2011, which was primarily attributable to (i) lower cost of sales recorded during the first quarter of 2011 due to the seasonal fluctuation; and (ii) the relatively higher balance of trade payables as at 30 April 2011 as the Group conventionally purchases more raw materials in April. The average trade payables turnover days decreased from approximately 36 days for the year ended 31 December 2009 to 28 days for the year ended 31 December 2010, which was primarily due to the combined effect of (i) a decrease in average trade payables as a result of earlier settlement of trade payables by the Group as described above; and (ii) an increase in cost of sales in 2010 of approximately 15.8% as compared with 2009. The average trade payables turnover days increased from approximately 29 days for the year ended 31 December 2008 to 36 days for the year ended 31 December 2009, which was primarily due to the increase in the average trade payables resulting from an increase in trade payables of approximately 60% as at 31 December 2009 as compared with that as at 31 December 2007.

ANALYSIS OF OTHER SELECTED FINANCIAL POSITION ITEMS

Prepayments and other receivables

The following table sets out the Group's prepayments and other receivables as at the respective financial position dates below.

	As at 31 December			As at 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other receivables	13,878	13,772	7,553	7,674
Prepayments	7,648	5,035	11,967	9,469
	21,526	18,807	19,520	17,143

Other receivables include advances to the subcontractors (without interest) made by the Group in view of their relatively long-term business relationships with the Group, and deposits paid to utility companies. Prepayments include prepayments for purchases of raw materials, Processing Fees, subcontracting fees and air freight charges. For each year during the Track Record Period, the aggregate amount of advances made by the Group to the subcontractors was HK$32.6 million, HK$10.1 million, HK$15.1 million and Nil respectively, whilst as at 31 December 2008, 2009 and 2010 and 30 April 2011, the Group's advances to the subcontractors amounted to approximately HK$11.4 million, HK$11.2 million, HK$3.5 million and HK$3.5 million respectively. As at the Latest Practicable Date, the advances to the subcontractors were fully repaid.

The balance of other receivables and prepayment decreased to approximately HK$18,807,000 as of 31 December 2009 from HK$21,526,000 as of 31 December 2008. The decrease was primarily attributable to a decrease in prepayment for subcontracting fees due to the timing differences in offsetting prepayment for subcontracting fees and trade payables as at 31 December 2009.

The balance of other receivables and prepayment increased to approximately HK$19,520,000 as of 31 December 2010 from HK$18,807,000 as of 31 December 2009. The increase was primarily attributable to (i) an increase in prepayments for subcontracting fees and Processing Fees of approximately HK$2,974,000 and HK$1,232,000 respectively as a larger scale of the knitting procedures of the Group were outsourced to the subcontractors by the Processing Factory and an increase in orders placed by the Group's customers respectively; (ii) an increase in prepayments for air freight charges of approximately HK$2,852,000 resulting from delay in delivery of yarn; and partially offset by (iii) a decrease in advances to the subcontractors of approximately HK$7,684,000 resulting from settlement by one of the Group's key subcontractors.

The balance of other receivables and prepayment decreased from approximately HK$19,520,000 as at 31 December 2010 to HK$17,143,000. The decrease was primarily attributable to a decrease in prepayments for subcontracting fees, primarily attributable to the decrease in knitting procedures outsourced to subcontractors resulting from the computerisation of knitting process of the Group and the seasonal fluctuation.

Other payables, VAT payables and receipt in advance

The following table sets out the Group's other payables, VAT payables and receipt in advance as at the respective financial position dates below.

	As at 31 December			**As at 30 April**
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	13,311	13,159	12,967	12,684
VAT payables	4,617	5,755	6,889	6,629
Receipt in advance	328	177	398	281
	18,256	19,091	20,254	19,594

Other payables mainly represented accrued staff costs as at each of the balance sheet dates of the Track Record Period.

OTHER MAJOR FINANCIAL RATIOS ANALYSIS

Current ratio

	As at 31 December			As at 30 April
	2008	2009	2010	2011
Current assets/current liabilities	2.23	2.72	2.22	1.89

The current ratio of the Group decreased from approximately 2.22 as at 31 December 2010 to 1.89 as at 30 April 2011 was primarily attributable to an increase in bank borrowings, a decrease in trade and other receivables and an increase in inventories, which have been explained in the paragraph headed "Net Current Assets" above in this section. The current ratio of the Group decreased from approximately 2.72 as at 31 December 2009 to 2.22 as at 31 December 2010 was mainly due to decreases in trade and other receivables and amounts due from related companies and Directors, proceeds from bank borrowings and dividends payables, partially offset by repayment of amounts due to Directors, which have been explained in the paragraph headed "Net Current Assets" above in this section. The current ratio of the Group increased from approximately 2.23 as at 31 December 2008 to 2.72 as at 31 December 2009, primarily due to the increases in advances to related companies, bank balances and cash, trade and other receivables and inventories, which have been explained in the paragraph headed "Net current assets" above in this section.

Quick ratio

	As at 31 December			As at 30 April
	2008	2009	2010	2011
(Current assets — inventories)/current liabilities	1.88	2.29	1.80	1.26

The quick ratio of the Group decreased from approximately 1.80 as at 31 December 2010 to 1.26 as at 30 April 2011, primarily attributable to a decrease in trade and other receivables and an increase in bank borrowings, which have been explained in the paragraph headed "Net Current Assets". The quick ratio of the Group decreased from approximately 2.29 as at 31 December 2009 to 1.80 as at 31 December 2010. This was mainly due to decreases in trade and other receivables and amounts due from related companies and Directors, proceeds from bank borrowings and dividends payables, partially offset by repayment of amounts due to Directors, which have been explained in the paragraph headed "Net Current Assets" above in this section. The quick ratio of the Group increased from approximately 1.88 as at 31 December 2008 to 2.29 as at 31 December 2009. This was mainly due to increases in advances to related companies, bank balances and cash and trade and other receivables as explained in the paragraph headed "Net Current Assets" above in the section.

Return on equity

	As at 31 December			As at 30 April
	2008	**2009**	**2010**	**2011**
				(Note 2)
Net Profit/Shareholders equity x 100% *(Note 1)*	30.5%	20.0%	43.8%	N/A

Notes:

1. Net profit represents the profit for the year.

2. Return on equity ratio is not applicable as the Group recorded loss for the four months ended 30 April 2011.

The return on equity of the Group increased from approximately 20.0% as at 31 December 2009 to 43.8% as at 31 December 2010. This was mainly due to the combined effect of increase in gross profit for the year ended 31 December 2010 and the decrease in Shareholders equity as a result of declaration of dividend of HK$73 million for the year ended 31 December 2010. The return on equity of the Group decreased from approximately 30.5% for the year ended 31 December 2008 to 20.0% for the year ended 31 December 2009. This was mainly due to the decrease in gross profit for the year ended 31 December 2009 resulting from competitive environment after the global financial crisis.

Return on total assets

	As at 31 December			As at 30 April
	2008	**2009**	**2010**	**2011**
				(Note 2)
Net Profit/Total Asset x 100% *(Note 1)*	18.3%	13.3%	18.3%	N/A

Notes:

1. Net profit represents the profit for the year.

2. Return on total assets ratio is not applicable as the Group recorded loss for the four months ended 30 April 2011.

The return on total assets of the Group increased from approximately 13.3% as at 31 December 2009 to 18.3% as at 31 December 2010. This was mainly due to an improvement in gross profit in 2010 due to the steady recovery of global economy, together with decreases in trade and other receivables and amounts due from related companies and Directors, which have been explained in the paragraph headed "Net Current Assets" above in this section. The return on total assets of the Group decreased from approximately 18.3% for the year ended 31 December 2008 to 13.3% for the year ended 31 December 2009. This was mainly due to the decrease in gross profit in 2009 as a result of competitive environment after the global financial crisis, together with increases in inventories, trade and other receivables, bank balances and cash and amounts due from related companies, which have been explained in the paragraph headed "Net Current Assets" above in this section.

OFF-BALANCE SHEET COMMITMENTS

Other than the operating lease commitments and capital commitments, the Group does not have any other off-balance sheet commitments as at the Latest Practicable Date.

INDEBTEDNESS

The following table sets out the Group's indebtedness as at the respective financial position dates below.

	As at 31 December			As at 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current				
Amounts due to Directors	12,725	12,440	—	3,569
Bank borrowings	1,023	498	9,555	21,788
Obligations under finance leases — due within one year	300	210	210	210
	14,048	13,148	9,765	25,567
Non-current				
Bank borrowings	—	—	32,466	33,232
Obligations under finance leases — due after one year	803	578	368	298
	803	578	32,834	33,530

Bank Borrowings

	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK'000*
Secured:				
Trust receipts loans *(Note 1)*	1,023	498	6,235	18,000
Unsecured:				
Mortgage loan *(Note 2)*	—	—	30,386	29,680
Other bank loan *(Note 3, 4)*	—	—	5,400	7,340
	1,023	498	42,021	55,020

	As at 31 December			As at 30 April
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,023	498	9,555	21,788
More than one year, but not more than two years	—	—	3,320	3,788
More than two years, but not more than five years	—	—	9,360	10,364
More than five year	—	—	19,786	19,080
	1,023	498	42,021	55,020

Notes:

(1) During the Track Record Period, trust receipt loans of the Group bear interest at floating rates of interest and due within 3 months. The floating rate borrowings carrying interest at 1 month HIBOR plus 1.125% per annum, ranging from HIBOR plus 1.125% to 1.625% per annum and ranging from 1 month HIBOR plus 1.1% to 1.625% per annum and ranging from 1 month HIBOR plus 1.1% to 1.625% during the three years ended 31 December 2010 and the four months ended 30 April 2011, respectively. During the Track Record Period, trust receipts loans were guaranteed by Madam Wong, Mr. Yam and Mr. Wong. The trust receipt loan required the Group to provide negative pledge on certain plant and machinery with carrying amount of approximately HK$11,494,000 as at 30 April 2011.

(2) During the year ended 31 December 2010, the mortgage loan with principal amount of HK$31,800,000 carries floating-rate ranging from 1 month HIBOR plus 0.8% to 0.9% per annum, repayable in 180 instalments commencing on 31 May 2010. The mortgage loan will be fully repaid by 30 April 2025. The proceed from the mortgage loan was advanced to Long Rise for acquisition of a property which is leased to the Group as headquarter pursuant to the Headquarter Tenancy Agreement. This advance to Long Rise was subsequently assigned to amounts due to Directors and settled during the year 31 December 2010. At 31 December 2010 and 30 April 2011, the mortgage loan was guaranteed by Madam Wong, Mr. Yam and Mr. Wong and secured by a legal charge over a property owned by Long Rise.

(3) During the year ended 31 December 2010, the other bank loan with principal amount of HK$6,000,000 was raised under the Special Loan Guarantee Scheme, which carries floating-rate at 1 month HIBOR plus 1.25% per annum, repayable in 60 instalments commencing on 31 July 2010. The other bank loan will be fully repaid by 31 August 2025. 80% of the principal amount of the other bank loan is guaranteed by the Government of Hong Kong. At 31 December 2010 and 30 April 2011, the other bank loan was guaranteed by Madam Wong and Mr. Yam.

(4) During four months ended 30 April 2011, machinery loan with principal amount of HK$2,340,000 was raised, which carries floating-rate at 1 month HIBOR plus 1.1% per annum, repayable in 60 installments commencing on 4 May 2011.

As at 31 December 2008, 2009 and 2010 and 30 April 2011, the Group has unutilised banking facilities of HK$64,827,000 HK$65,502,000, HK$87,266,000 and HK$62,886,000 respectively. As at 31 December 2008, 2009 and 2010 and 30 April 2011, certain banking facilities of the Group were secured by a property held by Mr. Wong.

	As at 31 December			As at 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due to Directors				
Madam Wong	8,751	8,668	—	—
Mr. Yam	2,551	2,551	—	—
Mr. Wong	1,423	1,221	—	3,569
Total	12,725	12,440	—	3,569

The amounts due to Directors are unsecured, non-interest bearing and repayable on demand. The amounts due to Mr. Wong as at 30 April 2011 represented advances from Mr. Wong for financing the daily operation of Fung Ching which is expected to be repaid by the Group prior to the Listing.

	As at 31 December			As at 30 April
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finance lease commitments				
Within one year	300	210	210	210
More than one year, but not more than two years	225	210	210	210
More than two years, but not more than five years	578	368	158	88
	1,103	788	578	508

All obligations under finance leases of the Group bear interest at fixed interest rates. The underlying interest rates of these obligations under finance leases are ranging from 2% to 2.9%, ranging from 2% to 2.9%, 2.9% and 2.9% during the Track Record Period, respectively. The Group's obligation under finance leases are secured by the lessor's charge over the leased assets. These leases had no terms of renewal or purchase options and escalation clauses.

As at 31 August 2011, being the date for determining the Group's indebtedness, the Group had a total indebtedness of approximately HK$107,134,000, representing interest-bearing bank borrowings of approximately HK$91,762,000, interest-bearing obligations under finance leases of approximately HK$438,000, interest-bearing other borrowings of approximately HK$8,410,000 and amount due to a director of approximately HK$6,524,000, the last of which will be settled prior to the Listing. The interest-bearing bank borrowings of (i) approximately HK$32,178,000 was secured by the Group's negative pledge on certain plant and machinery with carrying amount of approximately HK$42,826,000 and guaranteed by Madam Wong and Mr. Yam; (ii) approximately HK$51,861,000 was guaranteed by Madam Wong, Mr. Yam and Mr. Wong and secured by a legal charge over a property owned by Long Rise and a property held by Mr. Wong; and (iii) approximately HK$7,723,000 was guaranteed by Madam Wong and Mr. Yam and secured by a bank deposit of approximately HK$3,000,000. The Group has unutilised banking facilities as at 31 August 2011 of approximately HK$56,271,000.

It is expected that the said guarantees by Mr. Yam, Madam Wong and Mr. Wong and the security over the properties held by Long Rise and Mr. Wong shall be released upon Listing.

Save as disclosed above, as at 31 August 2011, the Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirmed that there is no material adverse change in indebtedness and contingent liabilities since 31 August 2011, being the date for determining the Group's indebtedness.

WORKING CAPITAL

The Directors are of the opinion that, taking into consideration the Group's internal resources, the existing available credit facilities of the Group and the estimated net proceeds from the Share Offer, the Group has sufficient working capital for its present requirements, for at least the next 12 months from the date of this prospectus.

Gearing Ratios

The Group's gearing ratio, defined as total debt including amounts due to Directors, bank borrowings and obligation under finance leases as a percentage of total assets, was approximately 10.1%, 8.2%, 27.9% and 37.0% as at 31 December 2008, 2009 and 2010 and 30 April 2011 respectively. The Group's gearing ratio increased from approximately 27.9% as at 31 December 2010 to 37.0% as at 30 April 2011, primarily attributable to (i) an increase in bank borrowings of approximately HK$12,999,000 for additional inventory stock in April 2011 for the peak production season from April to June 2011; and (ii) an increase in advances from Mr. Wong for financing the daily operation of Fung Ching. The Group's gearing ratio increased from approximately 8.2% for the year ended 31 December 2009 to 27.9% for the year ended 31 December 2010 was mainly due an increase in bank borrowings of approximately HK$41,523,000 which have been explained in the paragraph headed "Indebtedness" in this section, together with decreases in trade and other receivables, amounts due from related companies and Directors, which have been explained in the paragraph headed "Net current assets" above in this section. The Group's gearing ratio decreased from approximately 10.1% for the year ended 31 December 2008 to 8.2% for the year ended 31 December 2009 was mainly due to increases in inventories, trade and other receivables, bank balances and cash and amounts due from related companies, which have been explained in the paragraph headed "Net current assets" above in this section.

CONTINGENT LIABILITIES

Fornton Knitting has been named as a defendant in a High Court action as a writ was issued against it claiming for an amount of approximately HK$1,118,000 of which approximately HK$851,000 has already been included in the Group's trade payables. Fornton Knitting has filed a defence and counterclaim to this writ. No provision for any potential liability has been made in the combined financial statements contained in the Accountants' Report in Appendix I to this prospectus.

Save as disclosed above, as at 31 August 2011, the Group had no material contingent liabilities. The Group is not involved in any current material legal proceedings, nor is the Group involved in any pending or potential material legal proceedings.

CAPITAL RISK MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Capital risk management

The Group actively and regularly reviews and manages the capital structure in order to maintain a balance between the higher shareholder returns that might be possible with higher levers of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Further details on the Group's capital risk management are set out in note 5 to the Accountants' Report in Appendix I to this prospectus.

Financial risk management

The Group is exposed to market, credit and liquidity risks in the normal course of business.

The Group did not have any hedging policy during the Track Record Period. Further details on the Group's financial risk management objectives and policies are set out in note 7 to the Accountants' Report in Appendix I to this prospectus. However, the management of the Group may implement hedging policy as described in the paragraph headed "Subsequent Events" under this section. The Group will also monitor the foreign exchange exposure and will consider significant foreign currency exposure should the need arise.

SENSITIVITY ANALYSIS

Cost of raw materials mainly comprised yarns with a small extent of other materials. The purchase of yarns accounted for a substantial amount of the Group's cost of sales, representing approximately 43.9%, 40.8%, 39.4% and 22.4% of the Group's total cost of sales during the Track Record Period. The prices of yarns fluctuated during the Track Record Period and the changes in prices of yarns would have affected the results of operations during the same period. The following sensitivity analysis illustrates the impact of an increase/a decrease of 5%, 10%, 15% and 20% in the prices of yarns, with all other things held constant, would have increased/decreased the Group's profit for the year during the Track Record Period as follows:

For the four months ended 30 April 2011

Increase/(decrease) in prices of yarns	Loss for the period	Increase/(decrease) in loss for the period
%	*HK$'000*	%
20%	(5,668)	36.2%
15%	(5,292)	27.2%
10%	(4,915)	18.1%
5%	(4,538)	9.1%
—	(4,161)	—
(5%)	(3,784)	(9.1%)
(10%)	(3,407)	(18.1%)
(15%)	(3,030)	(27.2%)
(20%)	(2,653)	(36.2%)

For the year ended 31 December 2010

Increase/(decrease) in prices of yarns	Profit for the year	(Decrease)/increase in profit for the year
%	*HK$'000*	%
20%	9,677	(65.4%)
15%	14,250	(49.0%)
10%	18,822	(32.7%)
5%	23,395	(16.3%)
—	27,967	—
(5%)	32,539	16.3%
(10%)	37,112	32.7%
(15%)	41,684	49.0%
(20%)	46,257	65.4%

For the year ended 31 December 2009

Increase/(decrease) in prices of yarns	Profit for the year	(Decrease)/increase in profit for the year
%	*HK$'000*	*%*
20%	6,365	(71.3%)
15%	10,326	(53.5%)
10%	14,286	(35.7%)
5%	18,247	(17.8%)
—	22,207	—
(5%)	26,167	17.8%
(10%)	30,128	35.7%
(15%)	34,088	53.5%
(20%)	38,049	71.3%

For the year ended 31 December 2008

Increase/(decrease) in prices of yarns	Profit for the year	(Decrease)/increase in profit for the year
%	*HK$'000*	*%*
20%	11,383	(57.8%)
15%	15,283	(43.4%)
10%	19,183	(28.9%)
5%	23,084	(14.5%)
—	26,984	—
(5%)	30,884	14.5%
(10%)	34,785	28.9%
(15%)	38,685	43.4%
(20%)	42,585	57.8%

DIVIDEND POLICY

The Group declared a special dividend of HK$53 million and an interim dividend of HK$20 million for the year ended 31 December 2010 and a final dividend of HK$1.7 million for the year ended 31 December 2009, which has been fully settled as at the Latest Practicable Date. The Group did not declare any dividend for the year ended 31 December 2008. During the Track Record Period, dividend paid by the Group amounted to HK$10 million, nil, approximately HK$69.9 million and nil respectively. The Company currently does not have a fixed dividend policy and may distribute dividends by way of cash or by other means that the Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend would require the approval of the Board and depend upon the following factors:

- the Group's financial results;
- the Company's shareholders' interests;
- general business conditions, strategies and future expansion needs;
- the Company's capital requirements;
- the payment by its subsidiaries of cash dividends to the Company;
- possible effects on liquidity and financial position of the Company; and
- other factors as the Board may consider relevant.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in note 38 to the Accountants' Report in Appendix I to this prospectus, the Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to the Group than terms available to Independent Third Parties and were fair and reasonable and in the interests of the Shareholders as a whole.

DISTRIBUTABLE RESERVES

As at 30 April 2011, there was no reserve available for distribution to the Shareholders.

PROPERTY INTERESTS AND PROPERTY VALUATION

The Valuer, an independent property valuer, has valued the property interests of the Group as at 31 July 2011 and is of the opinion that the value of the Group's property interests as at such date was an aggregate amount of HK$14,400,000. The full text of the letter, summary of valuation and valuation certificate with regard to such property interests are set out in Appendix III to this prospectus.

The statement below shows the reconciliation of aggregate amounts of lease payment as reflected in the Accountants' Report as at 31 July 2011 with the valuation of this lease payment (land use rights) as at 31 July 2011 as set out in Appendix III to this prospectus:

	HK$'000	*HK$'000*
Valuation of the Group's property interests as at 31 July 2011 as set out in the valuation report included in Appendix III to this prospectus		14,400
Carrying value of the Group's property interests as at 30 April 2011 as set out in the Accountants' Report included in Appendix I to this prospectus	14,156	
Less: Amortisation during the period from 30 April 2011 to 31 July 2011	80	
Carrying value of the Group's property interest as at 31 July 2011 subject to valuation as set out in the valuation report included in Appendix III to this prospectus		14,076
Net valuation surplus		324

In accordance with the Group's accounting policy, all properties are stated at cost less accumulated amortisation and accumulated impairment losses. As such, the net valuation surplus arising from the valuation of the Group's property interests has not been included in the unaudited pro forma adjusted combined net tangible assets statement under the paragraph headed "Unaudited Pro Forma Adjusted combined Net Tangible Assets" under this section.

Disclosure required under the Listing Rules

The Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 April 2011:

1. Reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the Listing. Details of the Reorganisation are set out in the section headed "Reorganisation" in Appendix V to this prospectus. As a result of the Reorganisation, the Company became the holding company of the Group on 11 October 2011.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of the Group since 30 April 2011, being the date on which the latest financial information of the Group was reported in the Accountants' Report set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out herein to provide prospective investors with further financial information about how the combined net tangible assets of the Group as at 30 April 2011 might be affected by the completion of the Share Offer as if the Share Offer had been completed on that date.

The unaudited pro forma financial information has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the Group's combined net tangible assets had the Share Offer been completed as at 30 April 2011 or at any future date. It is prepared based on the Group's combined net assets as at 30 April 2011 as derived from the Group's combined financial information set forth in the Accountants' Report in Appendix I, and adjusted as described below.

	Audited combined net tangible assets of the Group as at 30 April 2011	**Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted combined net tangible assets**	**Unaudited pro forma adjusted combined net tangible assets per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on the Offer Price of HK$0.5 per Share	59,991	39,693	99,684	0.24

Notes:

(1) The audited combined net tangible assets attributable to the owner of the Company as at 30 April 2011 is arrived based on the Company's audited combined net tangible assets of approximately HK$59,991,000 as at 30 April 2011 extracted from the Accountants' Report set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Share Offer are based on the Offer Price of HK$0.5 per Share, after deduction of the underwriting fees and other related expense payable by the Company. The calculation of the estimated net proceeds from the Share Offer does not take into account any Shares which may be issued upon the exercise of any options granted under the Share Option Scheme.

(3) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Share Offer payable to the Company as described in note (2) above and on the basis that a total of 416,000,000 Shares were in issue as at 30 April 2011 (including Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Share Offer but not taking into account of any Shares which may be issued upon the exercise of any options granted under the Share Option Scheme).

(4) By comparing the valuation of the property interests as set out in Appendix III to this prospectus, the net valuation surplus is approximately HK$324,000 as compared to the carrying amounts of the Group's property interests as at 31 July 2011, which has not been included in the above combined net tangible assets attributable to the owners of the Company. The valuation surplus will not be incorporated in the Group's financial statements because it is the Group's accounting policy to state the property interests, classified under the sub-sections headed "Prepaid lease payment" in Appendix I to this prospectus, at cost less accumulated amortisation and impairment in accordance with Hong Kong Financial Reporting Standards. If the valuation surplus was recorded in the Group's financial statements, an additional amortisation of approximately HK$7,000 per annum would have been charged.