THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Post E-Commerce (Holdings) Limited, you should at once hand this circular and the accompanied proxy form to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

China Post E-Commerce (Holdings) Limited

中郵電貿(控股)有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8041)

Website: http://www.cpech.com

(1) VERY SUBSTANTIAL ACQUISITION ACQUISITION OF EASY TIME TRADING LIMITED INVOLVING THE ISSUE OF CONSIDERATION SHARES, CONVERTIBLE PREFERENCE SHARES AND PROMISSORY NOTES; (2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND (3) NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening the extraordinary general meeting of the Company to be held at Room 1103, 11/F, The ICBC Tower, 3 Garden Road, Central, Hong Kong on 28 March 2011 at 10:00 a.m., is set out on pages N-1 to N-4 of this circular. Whether or not you propose to attend the meeting, you are advised to complete the form of proxy attached to the notice of the extraordinary general meeting in accordance with the instructions printed thereon and return the same to the Company's share registrar, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

11 March 2011

* *For identification purpose only*

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE

The GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on the GEM.

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DEFINITIONS

In this circular, unless the context requires otherwise, the expressions as stated below will have the following meanings:

"Accounts Date"	31 March 2010, being the date on which the Audited Accounts have been prepared
"Acquisition"	the proposed acquisition of the Sale Share pursuant to the Sale and Purchase Agreement
"Adjudication Period"	the period commencing on 1 April 2007 and ending on 31 December 2010
"Adjusted Tax Liabilities"	the tax liability of Ratio Knitting for the Adjudication Period as adjudicated by the IRD
"Announcement"	the announcement dated 6 January 2011 issued by the Company in respect of, among other things, the Acquisition
"Audited Accounts"	the audited balance sheet, as at the Accounts Date, and audited profit and loss account of the Ratio Knitting for the period from 1 April 2007 and ended on the Accounts Date, including the directors' report thereon (if any) and the notes thereto
"Business Day"	any day (excluding a Saturday and any day on which a tropical cyclone warning signal no. 8 or above or a "black" rainstorm warning signal is hoisted or remains hoisted in Hong Kong at an time between 9 a.m. to 5 p.m. and is not lowered or discontinued at or before 5 p.m.) on which banks are generally open for business in Hong Kong
"BVI"	the British Virgin Islands
"Company"	China Post E-Commerce (Holdings) Limited, a company incorporated in Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange
"Completion"	completion of the transactions contemplated under the Sale and Purchase Agreement

"Consideration"	the consideration of HK$390,000,000 for the Sale Share under the Sale and Purchase Agreement
"Consideration Share(s)"	new Shares to be issued and credited as fully paid at Completion to the Vendor by the Company to satisfy part of the Consideration
"Constituent Document Amendments"	such necessary amendments required to be made by the Company to its articles of association for the purpose of authorising the creation of the Convertible Preference Shares, the issue of the Convertible Preference Shares, and the incorporation of the terms of the Convertible Preference Shares
"Contingent Consideration Payment Date"	the later of (i) the date falling one month after the date of the Adjustment Certificate; or (ii) the date falling one month from the date of receipt by the Company of such audited financial statements and the Guarantee Certificate, or such other date as the Vendor and the Company may agree
"Conversion Share(s)"	new Shares to be issued upon the exercise by the holders of Convertible Preference Shares of the conversion rights attaching to such Convertible Preference Shares
"Convertible Preference Share(s)"	the non-voting convertible preference shares of HK$0.15 each in the Company to be created and issued at Completion to the Vendor by the Company to satisfy part of the Consideration
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group and the Target Group

"Escrow Agent"	until an escrow agent is appointed by the Company, pursuant to the terms of the Sale and Purchase Agreement, the Company, and any successor escrow agent appointed by the Company
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Increase in Authorised Share Capital"	the proposed increase in the authorised share capital of the Company from HK$500,000,000 divided into 10,000,000,000 Shares of HK$0.05 each to HK$1,000,000,000 by the creation of an additional 14,000,000,000 Shares and 2,000,000,000 Convertible Preference Shares
"IRD"	The Inland Revenue Department of The Government of Hong Kong
"Last Trading Day"	6 January 2011, being the last day on which the Shares were traded on the Stock Exchange immediately preceding the publication of the Announcement
"Latest Practicable Date"	10 March 2011, being the last practicable date for ascertaining certain information included in this circular
"Mr. Ma"	Mr. Ma Hoi Cheuk, the ultimate beneficial owner of the Vendor
"PRC"	the People's Republic of China

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

* *For identification purpose only*

"Sale Share"	one share of US$1.00 in the share capital of the Target Company, the entire issued and fully paid-up share capital thereof
"SFO"	the Securities and Futures Ordinance (Cap 571) of the Laws of Hong Kong as amended from time to time
"Share(s)"	share(s) in the Company of HK$0.05 each
"Shareholders"	holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target Company"	Easy Time Trading Limited, a company incorporated in the BVI with limited liability and a wholly owned subsidiary of the Vendor as at the Latest Practicable Date
"Target Group"	the Target Company and its subsidiaries
"Tax Liability Adjudication"	the undertaking given by the Vendor to the Company regarding the Adjusted Tax Liabilities
"Vendor"	Big Good Management Limited, a company incorporated in the BVI with limited liability, and is wholly and beneficially owned by Mr. Ma
"WOFE"	江門市雙苑針織製衣有限公司(Jiangmen City Shuangyuan Knitting and Garment Factory Company Limited*), a wholly-owned foreign enterprise established under the laws of the PRC and a wholly owned subsidiary of Ratio Knitting
"Yofiel"	Yofiel International Group Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of Ratio Knitting
"%"	per cent

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Website: http://www.cpech.com

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Lau Chi Yuen, Joseph *(Chairman)*
Chung Man Wai

Independent Non-Executive Directors:
Lee Chung Mong, John
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Central, Hong Kong

11 March 2011

To Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION
ACQUISITION OF EASY TIME TRADING LIMITED
INVOLVING THE ISSUE OF CONSIDERATION SHARES,
CONVERTIBLE PREFERENCE SHARES AND PROMISSORY NOTES;
(2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

A. INTRODUCTION

Reference is made to the announcements of the Company dated 6 January 2011 in relation to the Acquisition.

* *For identification purpose only*

On 6 January 2011 (after trading hour), the Company, the Vendor and Mr. Ma (as the guarantor) entered into the Sale and Purchase Agreement under which, the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares at a total consideration of HK$390,000,000 which will be satisfied by way of issue of Consideration Shares, Convertible Preference Shares and Promissory Notes.

The purposes of this circular are to provide the Shareholders, among other things, (i) further information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) further information on the proposed Increase in Authorised Share Capital; (iii) to give the Shareholders notice of the EGM; and (iv) to provide other information required under the GEM Listing Rules.

B. THE SALE AND PURCHASE AGREEMENT

Date

6 January 2011 (after trading hours)

Parties

1. The Company as the purchaser;

2. Big Good Management Limited as the Vendor; and

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

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

Subject

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

Consideration

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

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

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

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

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

Conditions precedent

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

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

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

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

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

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

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

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

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

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

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

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

Completion

Completion shall take place on the date falling on the third Business Day upon compliance with or fulfillment or waiver of all the conditions precedent of the Sale and Purchase Agreement. Upon Completion and as a result of the Acquisition, there will be no change in control of the Company.

Promissory Note(s)

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

Issuer:	The Company
Principal amount:	HK$50,000,000 (the "**Principal Amount**")
Maturity date:	The fifth anniversary of the date of issue of the Promissory Note(s) (or such other date as the parties thereto shall agree in writing) (the "**Maturity Date**")
Interest:	The Promissory Notes shall bear no interest
Redemption:	Provided that the Company has given to the holder of the Promissory Note(s) of not less than ten (10) Business Days' prior notice in writing of its intention to repay any part of the outstanding principal amount under the Promissory Note(s), the Company may at any time from date falling six months of the date of issue of the Promissory Note(s) up to the date immediately prior to the Maturity Date, repay the entire Promissory Note(s) or any part of it (in amounts of not less than HK$5,000,000) by payment to the holder of the Promissory Note(s) of the outstanding principal amount thereof save that if at that time, the outstanding principal amount of the Promissory Note(s) is less than HK$5,000,000, the whole (but not part only) of the Promissory Note(s) may be repaid

Transferability:	The Promissory Note(s) may, with ten Business Days' prior notice in writing to the Company of the intention of the holder of the Promissory Note(s) to transfer or assign the Promissory Note(s), be freely transferable and assignable by the holder of the Promissory Note(s) to any other person (other than a connected person (as defined in the GEM Listing Rules) and any subsequent holder of the Promissory Note(s) will (except as otherwise required by law) be treated as the absolute owner of the Promissory Note(s) for all purposes

Convertible Preference Shares

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

Number of Convertible Preference Share:	1,733,333,333
Notional Value:	The issue price of each Convertible Preference Share, being HK$0.150.
Conversion price:	Initially, Convertible Preference Shares of an amount equivalent to HK$0.150 shall be convertible into one Share. The conversion price will be subject to adjustments for, among other things, subdivision or consolidation of Shares, capitalisation of profits or reserves and capital distributions, rights issues, issues at less than market price, issue of convertible securities and modification of rights of conversion as described in the terms and conditions of the Sale and Purchase Agreement.
Dividend:	Holder of each Convertible Preference Share shall have the same entitlement to dividend as holder of the number of Shares into which such Convertible Preference Share may be converted upon exercise of conversion rights attached thereto.

Conversion rights:	Convertible Preference Shares are convertible at the option of the holder at any time after the issue date. No conversion shall take place if: 1) to do so would result in the Conversion Shares being issued at a price below their nominal value as at the applicable conversion date; 2) to the extent that following such exercise, the relevant holder of Convertible Preference Share and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 20% or more of the entire issued share capital of the Company; or 3) immediately after such conversion, the public float of the Shares falls below the minimum public float requirements stipulated under the GEM Listing Rules or as required by the Stock Exchange. Accordingly, the Company has the right not to issue any Conversion Shares to such holder(s) of Convertible Preference Shares exercising the conversion rights in the above circumstances.
Redemption:	Neither the Company nor any holder of the Convertible Preference Shares shall have any right to redeem the Convertible Preference Shares, other than for the purpose of conversion of the Convertible Preference Shares pursuant to the terms of the Convertible Preference Shares.
Ranking:	The Convertible Preference Shares rank, (i) in priority to the Shares as to return of capital; and (ii) pari passu with the Shares as to dividends.

Voting:	Holders of the Convertible Preference Shares (in their capacity as such) will not be permitted to attend or vote at meetings of the Company, unless a resolution is proposed to vary the rights of holders of the Convertible Preference Shares or a resolution is proposed for the winding up of the Company.
Listing:	No application will be made for the listing of the Convertible Preference Shares on the Stock Exchange or any other stock exchange.
Transferability:	The Convertible Preference Shares are freely transferable, provided that if any Convertible Preference Share(s) is/are intended to be transferable to a connected person (as defined in the Listing Rules) of the Company (other than the associates (as defined in the Listing Rules) of the holder of the transferring Convertible Preference Shares), such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange (if any).

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

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

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

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

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

(iv) a discount of approximately 40.0% to the closing price of HK$0.250 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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

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

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

Consideration Shares

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

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

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

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

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

(iv) a discount of approximately 40.0% to the closing price of HK$0.250 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The 533,333,333 Consideration Shares represent approximately:

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

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

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

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

Tax Liability Adjudication

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

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

$$X = Y - Z$$

Where:

X	=	the sum to be deducted from the Consideration (the "**Deduction**")
Y	=	the Adjudicated Tax Liability
Z	=	the sum of tax payment made by the Ratio Knitting for the tax liabilities incurred during the Adjudication Period

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

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

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

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

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

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

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

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

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

Profit Guarantee

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

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

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

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

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

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

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

The Vendor and the Company shall procure that the audited consolidated financial statements of the Target Group for the Full-Year Period shall be prepared and reported on by the Auditors by the date falling four months after the expiry of the Full-Year Period, and the Auditors shall issue a certificate (the "**Guarantee Certificate**") to certify the amount of the aggregate audited net profits before tax and minority interests and any extraordinary or exceptional items of the Target Group as shown in such audited financial statements. The Guarantee Certificate shall, in the absence of manifest error and/or dispute from the Vendor, be final and conclusive of the matters stated therein and binding on the Vendor, Mr. Ma and the Company. A comparison of the financial performance of the Target Group with the Full-Year Guaranteed Profit will be included in the financial report of the Company for the financial year ending 31 December 2011.

Other undertakings

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

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

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

C. INFORMATION ON THE TARGET GROUP

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

Save for its 99% equity interests in Ratio Knitting, which in turn is the registered owner of the WOFE and being the 100% beneficial owner of Yofiel, the Target Company has not carried out other significant business activities since its incorporation on 3 September 2010 and does not have other significant assets and liabilities. The Target Company has not recorded any turnover since its incorporation and saved for minimal administrative expenses incurred which had been settled by loan from its shareholders of approximately HK$60,000, the Target Company has no other liabilities or contingent liabilities as at the Latest Practicable Date. Accordingly, the financial information of the Target Company is immaterial to the Target Group.

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

Ratio Knitting was incorporated in 1982 as a trading company of swimwear products. Starting from 2004 and still valid now, Ratio Knitting was granted with Oeko-Tex Standard 100 certificate by the Testex AG, Swiss Textile Testing Institute, which proves the textile products of Ratio Knitting are able to meet the human-ecological requirements of the standard and this also enables Ratio Knitting to further expand its market to the European countries. In September 2010, Ratio Knitting was acquired by Mr. Ma at a consideration of HK$50,083,113.03, while later in October 2010, Ratio Knitting established Yofiel, a wholly owned subsidiary which entered into a license agreement to obtain the exclusive right in using the underwear brand “Angevil” in the PRC, Hong Kong and Macau for a term of 50 years to further forwardly integrate to the PRC underwear and swimwear retail market.

Ratio Knitting beneficially owns the entire issued share capital of Yofiel. Yofiel was incorporated on 20 October 2010 and is intended to engage in the sales of swimwear and underwear in the PRC both on the Internet and to distributor(s) who subsequently sell the products to customers in their retail shops. Yofiel entered into a license agreement dated 21 October 2010 with 廣州市晶品電子商務有限公司(Guangzhou Jing Pin E-Commerce Co. Ltd.*) (“**Guangzhou Jing Pin**”) in relation to the granting to Yofiel of an exclusive license right to use the trademark of “Angevil” and “安格薇” for a period of fifty (50) years at the nominal license fee of HK$1 for the production and sales of garment and related products (includes but not limited to underwear, swimwear and its accessories) in the PRC.

* *For identification purpose only*

As confirmed by Guangzhou Jing Pin, it and each of its ultimate beneficial owners are third parties independent of and not connected with the Ratio Knitting Group and the Company. To the best of the Directors' knowledge, Guangzhou Jing Pin is the beneficial owner of the trademark of "Angevil" and has the right to sub-license the use of the trademark of "Angevil". As advised by Mr. Ma, Guangzhou Jing Pin is principally engaged in investment holding and acquired the trademark of "Angevil" by chance. As Guangzhou Jing Pin had limited experience in the lingerie business, its ultimate beneficial owners of Guangzhou Jing Pin, who were business acquaintance of Mr. Ma, agreed to licence the use of the trademark of "Angevil" to Yofiel at the nominal licence fee of HK$1.

According to the information provided by the Vendor, the existing registered owner of the trademark of "Angevil" is 珠海威妮絲內衣有限公司(as Zhuhai Weilizi Lingerie Company Limited*) ("**Zhuhai Weilizi**"), a company established under the laws of the PRC with limited liability. In October 2010, a trademark transfer agreement has been entered into between Guangzhou Jing Pin as assignee and Zhuhai Weilizi as assignor in relation to the assignment of the trademark of "Angevil". Application for approval of such assignment has been submitted to and accepted by the Trademark Office under the State Administration for Industry and Commerce of the PRC.

Since its incorporation on 20 October 2010, Yofiel has not incurred material cost or recorded any turnover except for the nominal administration fee incurred. Save for the holding of the licence for the use of the trademark "安格薇" or "Angevil" with the licence fee paid for the terms of 50 years of HK$1, Yofiel has no other significant assets and liabilities as at the Latest Practicable Date.

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

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

* *For identification purpose only*

Set out below is the audited consolidated financial information of the Ratio Knitting Group for the two financial years ended 31 March 2009 and 31 March 2010 respectively as extracted from the accountants' report on the Ratio Knitting Group as set out in Appendix II to this circular:

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

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

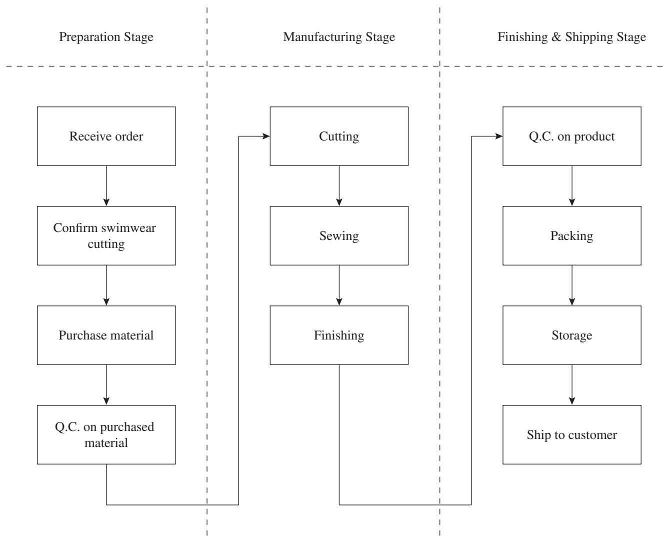
D. INFORMATION OF THE TARGET GROUP'S BUSINESS

Business model

Ratio Knitting is an original equipment manufacturing ("**OEM**") and original design manufacturing ("**ODM**") partner with its customers and is specialized in making a wide variety of stylish high-end swimwear and beachwear products ranging from bikinis, tankinis, classic underwired styles swimwear, one-piece swimwear and pareo to kids' swimwear.

The Ratio Knitting Group is currently engaged in a strict forward manufacturing and trading business. The revenue stream of the Ratio Knitting Group is mainly attributable to the sale of swimwear. The sales and marketing team sources its customers through referral from buyers, trade shows, and reinforces the business relationship and wins the reputation from its existing customers by providing high quality services on both before and after sales services like, professional design ideas and on-time delivery, as well as quality swimwear products. Usually, the design team will discuss with the customers about the upcoming and the latest trend of swimwear. Then the sales will follow up with the enquiries from the customers and their orders details. Once orders are placed, sales will pass the information to the production planning team to follow up with the production details and scheduling with the PRC Processing Partners. Meanwhile, the production planning team will follow up with the raw materials availability, procurement and its quality. Finally, when the finished products are almost ready to deliver, the shipping team will then arrange shipment with freight forwarders as per the necessary request specified in each of its customer orders.

The Ratio Knitting Group outsources the manufacturing of its swimwear products to the PRC Processing Partners. The Ratio Knitting Group provides the PRC Processing Partners with raw materials, machinery and facilities for their production. The PRC Processing Partners primarily engage in raw materials inspection and cutting, fabric laying, marking of fabric, stretchy testing, sampling, sewing and manufacturing, packaging and relevant post-finished process of the swimwear. The PRC Processing Partners are also responsible to perform the product quality control with the monitoring of the production planning team. The detailed production process flow is shown in the following diagram:



Most of the key customers of Ratio Knitting are located in overseas. Once orders are concluded and placed by the customers, its production management team will coordinate the production scheduling with the PRC Processing Partners whilst its merchandizing team will check the inventory level for each order as per each bill of materials so as to ensure adequate inventory is in place or else new material orders are needed to be placed accordingly with the existing vendors, or suppliers in order to avoid any bottleneck hindering the production schedules. Meanwhile, its shipping team will follow through the logistic channels of all completed orders together with the production team according to the production schedules provided. Corresponding shipping schedules then can be arranged by the shipping team with freight forwarders based on the factory production time, the customer orders' and the availability of shipping time. Once the shipment is made, Ratio Knitting will recognise the turnover at this stage.

Key challenges and successful factors

One-stop service provider

The swimwear industry is highly susceptible to changes in fashion trends and fluctuations in consumer preferences and demands. In order to achieve continued and sustained success in the Ratio Knitting Group's business, the Ratio Knitting Group must be able to predict, identify and respond promptly to such changes.

One of the Ratio Knitting Group's competitive strengths is its ability to provide one-stop solution for its customers varying from professional suggestions to its customers on the choice of the right fabrications and styles and colours to achieve its customers' specific branding images or matching with their geographic or global marketing strategies. It has a design team which works very closely with the fabric vendors to co-develop various new materials for its customers such as UV protection, fitness controlling, quick dry, long life and comfort materials for making new swimwear to differentiate from the traditional swimwear products. After years of co-operation with the fabric manufacturers and the loyalty of its customers, it proves that Ratio Knitting is capable of retaining its customers with repeated and profitable orders.

Effective cost control measures

Sales of swimwear are subject to seasonal fluctuations. Despite swimwear is a seasonal product and the orders from customers mainly concentrate in the period from October to March each year, the Ratio Knitting Group established some measures to cope with this phenomenon in the long haul. In terms of cost control, Ratio Knitting is able to liaise with fabric suppliers for an off-seasonal and bulk purchase discount on the commonly used swimwear fabric. On the other hand, it also maintains a minimal permanent staff and will employ temporary staff during the high season to save the employee related costs.

Mitigating seasonal effects on turnover

Although the existing customers of the Ratio Knitting Group are mainly located in Europe, it gradually extends and diversifies its customer base to those countries in the southern hemisphere like Australia, the South Africa and the South America in order to reduce the seasonal impacts. Also, the management of the Ratio Knitting Group intends to enter into the female underwear market and the first stop is focusing on the PRC market. It is expected that the high economic growth rate, as well as the rapid urbanization in the PRC will create an enormous demand for fashionable and high quality branded underwear products in the coming years.

Stringent quality control measures

To fulfill ever demanding customers' satisfactions and sustain a high gross margins in the swimwear and beachwear segment especially for the high-end and branded products, the Ratio Knitting Group tries its very best to maintain superior product quality for all its products. For instance, for some of the swimwear products, the Ratio Knitting sources fabric from certain reputable suppliers for the nylon, spandex and also well-known "Lycra" materials. Ratio Knitting also implements a stringent quality control system which includes quality inspection of the swimwear products at different stages across the various production processes through the PRC Processing Partners. In particular, when the critical raw materials e.g. synthetic fabric products, are received, they will be tested and inspected using the computerized fabric inspection and stretchy testing machines before cutting and putting into mass production.

Competent in-house design team

Top of the range design is a must for the Ratio Knitting Group to successfully compete in the garment industry. The competent in-house design team of the Ratio Knitting Group wins not only the reputations but also loyalties among its key customers. Under the usual design process, the in-house designers will observe, understand and filter both the latest fashion trend for the corresponding year and also the market positions, cross cultures, environmental issues for its customers. When the designers are coming up with some design ideas, they will onwards pass these ideas to its customers who will further either alter or stick to the original ideas to realize and develop new collections or series for the upcoming years that best suit the needs and preference of the end users in various geographical regions.

Most of the time, the customers would like to develop prototypes for some of the designs created by Ratio Knitting's in-house designers. Therefore, the production team will assist the customers to manufacture some samples for their consideration before placing mass production orders. The Ratio Knitting Group established a sample making team and the lag time for one sample will be as fast as one week. As such, the Ratio Knitting Group will derive other income from the sample fee. These samples income amounted to approximately HK$1,298,000, HK$836,000, HK$536,000 and HK$474,000 for the year ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2010.

Major customers and suppliers

Sales to the largest customer and the top 5 customers accounted for approximately 21.6% and 71.5% of the Ratio Knitting Group's sales respectively for the six months ended 30 September 2010.

There has been no significant change in the mix of the top 5 customers during the three years ended 31 March 2010 and the six months ended 30 September 2010. However, the sales to the top 5 customers showed an increasing trend and accounted for approximately 43.0%, 41.8%, 48.3% and 71.5% of total annual turnover for each of the years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2010.

Purchases from the largest supplier and the top 5 suppliers accounted for approximately 15.1% and 46.1% of the Ratio Knitting Group's purchases respectively for the six months ended 30 September 2010.

Most of the 5 suppliers are major fabric suppliers in the industry, and for the three years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2010, there has been no significant change in the mix of top 5 suppliers.

Products

The Ratio Knitting Group sells a wide variety of swimwear and beachwear products to its customer and the details of products are categorized as follows:

Swimwear and Beachwear

Product Category		%
a.	Ladies' Bikini	52%
b.	Girl's Styles Swimsuit	30%
c.	Ladies' Swimsuit	13%
d.	Others (e.g. Men's/Boy's Swimtrunks, Pareo, etc)	5%
		100%

Sources of operating funds

With reference to the accountants' report of the Ratio Knitting Group as set out in Appendix II to this circular, the operating cash flow for the three year ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2010 amounted to about HK$43.7 million, HK$26.6 million, 23.2 million and 8.7 million, respectively. In view of above, the Ratio Knitting Group is a self-sustained enterprise in the past years and the management of Ratio Knitting has full confidence that the Ratio Knitting Group will keep on maintaining its healthy cash generating abilities in future.

Product design

The Ratio Knitting Group provides professional design supports and ideas to its customers including the use of colours, materials, patterns, design layouts to its customer on every season. In addition, the Ratio Knitting Group can source fine fabric materials with its raw material suppliers and the designers of the Ratio Knitting Group can co-develop new fabric materials with its existing suppliers by providing new ideas to the suppliers and also its customers. Usually, the Ratio Knitting Group procures raw materials and fabric during off season to enjoy both bulk purchase and off-seasonal discounts to secure the high gross margins.

Production and outsourcing

Ratio Knitting has carried out its manufacturing operations through the processing arrangement with the PRC Processing Partners according to the Processing Agreement. The PRC Processing Partners are 虎門對外經濟發展公司 (Humen External Economic Development Company*) and 東莞市對外加工裝配服務公司 (Dongguan External Manufacturing and Assembling Service Company*). The production plants and the ancillary dormitories (the "**Properties**") are located at Humen District, Dongguan in Guangdong Province with a gross floor area of about 16,338 square meters and are mainly serving the sole and dominant function of manufacturing swimwear and related products solely for and on behalf of Ratio Knitting.

The key terms and conditions to the Processing Agreement are summarised as follows:

(i) Ratio Knitting shall provide all necessary production equipments and machinery.

(ii) The PRC Processing Partners shall provide factory space, electricity and utilities and labor force, whilst Ratio Knitting shall provide all the raw materials, supplemental materials and package materials necessary for production.

(iii) The PRC Processing Partners shall receive a processing income from Ratio Knitting which include, among other things, the cost of utilities and labor.

(iv) The PRC Processing Partners shall procure land and factory. The factory rental fee and land use cost shall be borne by Ratio Knitting Factory Limited which are included in the processing fee.

(v) Ratio Knitting shall bear all the transportation cost and necessary insurance cost for both raw materials and finished products back and forth the factory.

The Processing Agreement dated 3 April 1992 was first expired on 4 April 1997. Ratio Knitting has extended its co-operation with the PRC Processing Partners by entering into two renewal agreements dated 10 January 1997 and 16 October 2001 respectively with the same terms and conditions as the Processing Agreement dated 3 April 1992, save for the term of the processing arrangement had been revised to ten years from the expiry of the renewal agreement dated 10 January 1997 (i.e. 4 April 2002) and is subject to extension or termination by either party with a prior six month notice pursuant to the renewal agreement dated 16 October 2001. The Ratio Knitting Group currently continues its manufacturing operations under the renewal agreement dated 16 October 2001 which will expire on 4 April 2012. Since Ratio Knitting has maintained a long term business relationship with the PRC Processing Partners and there has not been any major business disputes that would jeopardize the relationship between the Ratio Knitting Group and the PRC Processing Partners since 1992, the management of Ratio Knitting expects that there is no foreseeable difficulty to renew the Processing Agreement which will expire in April 2012.

Ratio Knitting also entered into a supplemental agreement with the PRC Processing Partners dated 4 July 2007 pursuant to which Ratio Knitting agreed to provide certain additional production equipments and machinery to the PRC Processing Partners for the processing arrangement. Ratio Knitting provides production facilities (including fabric overlocking machines, sewing machines and fabric cutting machines) and inspection facilities (including fabric relaxing machines and fabric inspecting machines) to the PRC Processing Partners. As at 30 September 2010, the net book value of the production facilities and inspection facilities provided by Ratio Knitting was approximately HK$646,000.

The PRC Processing Partners are mainly engaged in the manufacturing of swimwear and related garment products. The maximum production capacity for the PRC Processing Partners is about 350,000 pieces per month. For the three years ended 31 March 2010 and the six months ended 30 September 2010, the average production volume of PRC Processing Partners was approximately 300,000 pieces per month for high season (usually from October to March), and approximately 150,000 pieces per month for low season (usually from April to September). The fluctuation on the utilization rate is due to the seasonal effect of the swimwear products as the customers base is mainly concentrated in the north hemisphere especially the European countries where the summer time is in around June to August.

The administration and compliance manager of Raito Knitting, Mr. Wong Hau Yan, who stations in Dongguan monitors the production process and operation of the PRC Processing Partners. Mr. Wong also co-ordinates the production planning, shipping and quality control issues with the PRC Processing Partners.

Since Ratio Knitting will procure the raw materials, the legal title and ownership of the raw materials, semi-finished and finished products belong to Ratio Knitting. Yet, Ratio Knitting will pay the PRC Processing Partners processing fee as per the terms laid down in the Processing Agreement.

As at the Latest Practicable Date, the Properties were leased by Ration Knitting for the production carried out by the PRC Processing Partners for a term of 10 years till 30 September 2011 and a term of 13 years till 30 June 2018, pursuant to the tendency agreements entered into between Ration Knitting as the lessee, and a local cooperation and a PRC individual as the lessor, which were dated 2 August 2001 and 30 May 2005 respectively.

As at the Latest Practicable Date, the PRC legal advisers were unable to ascertain through land searches at the local land bureau whether the lessors currently own the Properties or whether the lessors have the rights or authorisation to lease such piece of land under the tenancy agreements dated 2 August 2001 and 30 May 2005 respectively. If there is any dispute as to the legal title of the Properties and/or if the Ratio Knitting Group's right to occupy the Properties for production comes into question, or the relevant leases are considered void by the relevant PRC authorities, the Properties may have to be vacated and relocated elsewhere. The Ratio Knitting Group may, as a result, incur additional expenses in relocation and it may not be able to identify another property which is comparable in size and location. In such cases, the Ratio Knitting Group's business operations may be adversely affected. However, given that there are many vacant garment factories in Dongguan, it is expected by the management of the Ratio Knitting Group that it will need only around a month time to rent another factory and to relocate the machineries and to fine tune and resume the production process. The cost of mobilization is expected to be less than RMB2 million.

Quality Control

All inward raw materials will be inspected by Ratio Knitting on delivery by the quality control team leaded by Mr. Wong Hau Yan. During the production stage, Mr. Wong co-ordinates with the PRC Processing Partners and whose staff carries out on-production-line quality control as well as final stage quality control of finished products. The Ratio Knitting Group's quality control personnel will also perform on-site quality control before every shipment is made from the PRC Processing Partners to Hong Kong. Daily quality control report, which states (i) the inspected quantity and sample size for each specimen; (ii) product descriptions (style, order number, customer number); (iii) key measurement areas of inspected sample (e.g. fabric, lining, padding, zipper, label, packing, length, etc); and (iv) results of inspection, will be prepared by the PRC Processing Partners and sent to the Ratio Knitting Group. All the quality control reports are reviewed by Mr. Wong. According to historical experience, the defect rate is usually less than 5% for each of the three years ended 31 March 2010 and the six months ended 30 September 2010, as most of the semi-finished products can be rectified and re-fabricated during the on-production-line quality control stage.

Sales and Marketing

Over the years of operations, the Ratio Knitting Group has established strong and close working relationships with its key customers for its swimwear and other apparel products. The management of Ratio Knitting believes that one of the attributes to the Ratio Knitting Group's success is its ability to secure business from its customers located in the European countries and maintain long-term relationships with them who own internationally recognized brand names.

In order to identify new potential customers of the Ratio Knitting Group, to assess the latest market trends and to determine the fabric designs and development direction for its swimwear and other apparel products, the Ratio Knitting Group's marketing team attends trade fairs related to the garment products which are usually held regularly in Hong Kong and Europe in January and July each year. In the future, the Company will continue to promote the Group's apparel products through trade exhibitions held in Hong Kong and Europe.

Procurement and Supplies

Over the years, the Ratio Knitting Group has established strong and close working relationships with its suppliers which can meet the standards required by the Ratio Knitting Group, particularly with the suppliers of fabric. Some of Ratio Knitting's suppliers are nominated by the customers and some are referred by merchandisers and other suppliers. Trade Development Council of Hong Kong also provides assistance in raw materials sourcing.

Ratio Knitting has been assumed the liabilities of the raw materials during the three years ended 31 March 2010 and the six months end 30 September 2010.

* *For identification purpose only*

The Ratio Knitting Group currently sources its fabrics which are manufactured mainly in the PRC or the overseas. During the three years ended 31 March 2010 and the six months ended 30 September 2010, the purchase of fabrics accounted for approximately 31.3%, 30.6%, 30.7% and 41.7% respectively of the Ratio Knitting Group's total cost of procurement.

Ratio Knitting sources fabrics from various suppliers which can meet the standards of the Ratio Knitting Group so as to reduce its reliance on any single supplier. During the three years ended 31 March 2010 and six months ended 30 September 2010, the Ratio Knitting Group has not encountered any difficulties in the procurement of fabrics from suppliers in the PRC and Hong Kong. In order to diversify the risks involved in the short term price fluctuation of cotton fabric, the management of Ratio Knitting considers that, for the sake of flexibility, it is not desirable for the Ratio Knitting Group to enter into any long term procurement agreement with any of the fabric suppliers.

Business Development

In October 2010, Yofiel International Group Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of Ratio Knitting, was established. Yofiel is the licensee for the use of the registered trademarks containing "安格薇" or "Angevil" or trademarks containing related or similar characters. Angevil is a designer label originated in South Korea. Products of Angevil have been introduced into the PRC market since 2007 and are currently sold in several major cities in the PRC. Angevil underwear are designer lingeries for South Korean celebrities to attend parties as fashion accessories. In the past few years, Angevil collected more than 40,000 female figures data for the age between 20 to 35, and became one of the famous brands in the underwear industry.

The management of Yofiel is now working on the launch and sales of "Angevil" products in the PRC. While Yofiel is currently sourcing some underwear production factories in the PRC to produce the underwear products for the PRC market, Ratio Knitting will also assist Yofiel in the design and manufacturing of its underwear products initially at a small quantity scale of about 2,500 pieces per month by third quarter of 2011. Yofiel intends to first concentrate its efforts on building up brand recognition of its "Angevil" underwear products through setting up web-based Internet shops in the Taobao Internet trading platform with the assistance of the Group. Two of the wholly owned subsidiaries of the Company including, China Post E-Commerce Group Limited and Global Post E-Commerce Trading Limited, will assist Yofiel in launching and the sales of female underwear under the online shopping platform in www.babybamboo.net which mainly operates in Hong Kong, and www.monsters.net.cn which mainly operates in the PRC, under the master Internet sales platform of Taobao. Currently, under the Company's statistic on its websites, over 60% of the online shoppers are female. That reflects huge potential for female clothing market on Internet for merchants to be explored with. Pursuant to the agreement entered into between Global Post E-Commerce Trading Limited and 深圳市邊寫邊看文化傳播有限公司(Shenzhen Bianxiebiankan Culture Communication Co., Ltd.*), the Group has obained an exclusive advertising right of two Taobao related magazines 《淘寶深圳》(《淘寶天下》周刊之副刊)(Taobao Tianxia City Magazine: Shenzhen (Taobao Tianxia Weekly, Supplement)*) and《淘寶廣州》(《淘寶天下》周刊之副刊)城市版(Taobao Tianxia City Magazine: Guangzhou (Taobao Tianxia Weekly, Supplement)*), the Company can assist Yofiel to further promote its high-end female underwear products both online and offline through Internet and magazine media respectively. By leveraging on the existing sale force of over 85 sales staff in both subsidiaries of the Company, Yofiel will need only a few sales and marketing personnel to do the co-ordination work at the beginning stage of the business and can enjoy doing business with potential expansion both in the PRC and in Hong Kong in a cost-effective way. As Yofiel will leverage on the sales and marketing resources of the Group, it is expected that there will be no immediately material capital requirements while the annual operating expenses for Yofiel in 2011 are expected to be controlled to within HK$1 million scale.

* *For identification purpose only*

Yofiel intends to focus on the PRC female underwear market with the potential extension to the swimwear market. Ratio Knitting will assist Yofiel in the manufacturing and design of swimwear that suits the PRC target customers' needs and wants and initially at a small quantity scales per order. It will be the first time for the Ratio Knitting Group to enter into the PRC market as its target customers who, as compared with its existing customers overseas, will probably have different tastes or preferences or size issues on its products. In that sense, the design team of Ratio Knitting will face a challenge to evaluate and educate a different set of customers' requirements in terms of culture, styles, patterns, colours, needs and preferences. Yofiel may, therefore, experience another learning curve effect and require time and cost to acquire and accumulate more data to come up with a new set of marketing plans or strategies to effectively penetrate into this fast growing market. In order to shorten the learning curve time, Yofiel plans to employ one to two sales and marketing managers in the PRC who posses solid past experience and track records in the sales and marketing, and have established a well connected retail network across the PRC. The sales and marketing managers will then work with the Company's sales teams in Shenzhen to formulate a co-operation methodology to work out an effective sales plan via all media channels that the Company possessed. Yet, the management of the Ratio Knitting Group has accumulated ample of, over 10 years, experience in the swimwear industry to assess the feasibility or validity of entering this new arena and are ready to face this challenge. With the appreciation in RMB in the current years, export business becomes very tough and less competitive. The management of Ratio Knitting is now starting to use "Angevil" as a pioneer brand for the PRC market that is expected to create benefits in capturing market shares for the Ratio Knitting Group in the near future.

While Yofiel will closely monitor the market response to the "Angevil" underwear products with respect to the sales generated from the Internet shops in 2011, Yofiel will conduct feasibility studies for and may consider the establishment of a distribution network in the PRC in 2012 by selling its products on a wholesale basis to distributors who subsequently sell the products to end customers through retail outlets operated by themselves or their sub-distributors.

E. SENIOR MANAGEMENT OF THE TARGET GROUP

The Target Group has well equipped itself with an experienced management team, which consists of personnel with qualifications and experience in the apparel and clothing industry in the PRC and Hong Kong, to oversee its operation. Upon Completion, the Ratio Knitting Group will retain the current management team of the Target Group and may engage additional suitable candidates if necessary to ensure continual efficient operation of the Target Group. Set out below are the biographies of Ms. Ng Suk Fun, Fanny, Ms. Wong Yan Chu, Mr. Wong Hau Yan, Michael and Ms. Yu Wai Yin, Vicky, all being the existing members of the management team of the Target Group:

Ms. Ng Suk Fun, Fanny（吳淑芬）, aged 53, is the director and the general manager of Ratio Knitting. Ms. Ng oversees the sales and marketing, merchandizing as well as general administrative activities of the Ratio Knitting Group. She attains over 20 years of working experience in the garment industry. Prior to joining the Ratio Knitting Group in 2005, Ms. Ng was the director of AE Continent Company Limited, a garment trading company.

Ms. Wong Yan Chu（黃仁珠）, aged 59, is the technical consultant of Ratio Knitting. Ms. Wong joined the Group in 2010 to provide technical support to the PRC Processing Partner and solution to Ratio Knitting customers. Prior to joining the Ratio Knitting Group, Ms. Wong was the ex-owner of Fung Lee Garment Factory since 1992 to 2009 and she has over 40 years experience in the swimwear industry.

Mr. Wong Hau Yan, Michael（黃孝仁）, aged 47, is the administration and compliance manager of Ratio Knitting. His main responsibilities are handling the administrative duties and working relationship among various departments inside the company, maintaining the ethnic code of conduct required by all customers and supervising the quality assurance of the PRC Processing Partners. Mr. Wong joined the Ratio Knitting Group in 2008 and prior to the joining of the Ratio Knitting Group, he was a senior merchandiser and a member of quality control team of Mast Industries Limited and Lindex HK Limited which are international garment trading companies. He has over 10 year experience in quality management in the garment industry.

Ms. Yu Wai Yin, Vicky（余慧妍）, aged 31, is the director of Ratio Knitting and Yofiel since 2010. She has over 10 years of experience in the textile and garment industry. Her current duties are mainly overseeing the sales and marketing activities of Yofiel and managing the branding of "Angevil" in the PRC market. Prior to joining the Ratio Knitting Group, Ms. Yu worked as a merchandiser in Leedro (Agencies) Limited (a textile trading company) from 1997 to 2000, and then took up some managerial positions in various textile or garment trading companies like, Wellwise Hong Kong Limited, Pacific Field Trading Limited and Holuck Textiles Company Limited.

F. FINANCIAL INFORMATION OF THE TARGET GROUP

Credit policy to customers

The trading terms with the Ratio Knitting Group's existing customers are mainly on credit sales. Under normal circumstance, the credit terms generally range from 0 to 90 days. Each customer has a maximum credit limit which will be adjusted according to the payment history and customers financials. For new customers, advance payment is normally required and the Ratio Knitting Group will also seek insurance protections for the export orders with the Hong Kong Export Credit Insurance Corporation (ECIC) when necessary. The Ratio Knitting Group always maintains a strict control over all its outstanding receivables. Overdue balances are reviewed regularly by the directors of Ratio Knitting. There is no bad debt provision being made so far.

Inventory Policy

Even though the Ratio Knitting Group does not enter into any long term contract with its suppliers, it adopts the policy to procure major and commonly used fabric raw materials during offseason that enables it to enjoy both a cost saving and a protection of lacking of raw materials in the high season.

Staff Remuneration and Policy

Staff is remunerated, based on market practice, on a 13-month salaries per annum basis together with a discretionary bonus depending on the company's profit performance of the relevant year. The Ratio Knitting Group also enters into Mandatory Provident Fund program in accordance with the Mandatory Provident Fund Ordinance for its Hong Kong employees in Hong Kong.

The Ratio Knitting Group **Functional Department**	**As at** **31 January 2011** *No. of staff*
Sales, Customer Service	7
Quality Control	4
Design & Development	2
Purchasing	2
Shipping	2
Accounts, Administration & IT	6
Total	23

Dividend Policy

The Ratio Knitting Group will consider to declare dividend when there is distributable surplus on the reserve and adequate cash after setting aside sufficient necessary working capital for the maintenance of daily operation.

Critical accounting policies

There are certain accounting policies that are significant to the preparation of the financial statements of the Ratio Knitting Group. These significant accounting policies are important for an understanding of the financial condition and results of operations and are set forth in Note 3 "Significant accounting policies" of the accountants' report in Appendix II to this circular. The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set forth in Note 4 "Critical judgements and key estimates" of the accountants' report in Appendix II to this circular. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items such as revenue recognition, cost or expense allocation and provision for liabilities.

In each case, the determination of these items requires management judgements based on information and financial data that may change in future periods. The following significant accounting policies involve the most significant estimates and judgements used in the preparation of the financial statements of the Ratio Knitting Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Ratio Knitting Group and the amount of revenue can be measured reliably.

Revenue from sales of manufactured goods is recognised when goods are delivered and title has passed. The management adopts the same revenue recognition policy for the manufacturing and distribution businesses. Although the manufactured products are often subject to extensive quality and reliability testing by the customers, such testing is carried out prior to any sale of such products to the customer. After Ratio Knitting sells the manufactured products, they are not subject to quality and reliability testing other than the standard warranty that provide to customers. On that basis, the Ratio Knitting Group recognises revenue when goods are delivered and title has passed.

Interest income is recognised on a time-proportion basis using the effective interest method.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Ratio Knitting Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Ratio Knitting Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Recognition of deferred tax assets depends on management's expectation of future taxable profits against which the unused tax credits can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity. The management evaluates the tax implications of such transactions and makes provision accordingly. The tax treatment of such transaction is reconsidered periodically to take into account all changes in applicable tax legislation.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Ratio Knitting Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Ratio Knitting Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land and buildings	2.5% or over the unexpired term of the lease, if shorter
Motor vehicles	20%
Furniture and fixtures	20%
Plant and machinery	20%

The management reviews annually the estimated useful lives of the assets regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives are based on the Ratio Knitting Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted prospectively if there are significant changes from previous estimated.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Impairment of assets

At the end of each reporting period, the Ratio Knitting Group reviews the carrying amounts of the tangible and intangible assets except inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Ratio Knitting Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. If any such indication exists, the management's judgement is required in estimating the asset's recoverable amount. The management will also need to assess the value in use, the estimated future cash flows and the appropriate rate to apply in discounting the estimate future cash flows to their present value.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

G. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

For the year ended 31 March 2008

Financial and Business Review

For the year ended 31 March 2008, the Ratio Knitting Group's turnover was amounted to approximately HK$165.4 million, representing an increase of around 10.1% compared with that of in 2007 (approximately HK$150.2 million). The increase in turnover was mainly due to the increase in sales order from its European customers. While the Ratio Knitting Group could still maintain its gross profit margin in a level of around 32.6% for the financial year ended 31 March 2008.

The net profit attributable to equity holders of the Ratio Knitting Group was approximately HK$37.0 million, representing a net margin of around 22.4% (2007: HK$32.8 million).

During the year, the Ratio Knitting Group mainly engaged in swimwear and related garment accessories manufacturing and sales business and all the turnover was derived from this reportable business segment. In terms of geographical segment, revenue from the European markets was approximately HK$145.7 million, contributing approximately 88.1% of the Ratio Knitting Group's total revenue in 2008. Hong King and other markets recorded revenue of approximately HK$19.7 million, representing approximately 11.9% of the Ratio Knitting Group's total revenue in 2008.

The other income amounted to approximately HK$6.8 million including, among other things, the exchange gain (approximately HK$3.7 million), the sample income (approximately HK$1.3 million) and the sundry income (approximately HK$1.4 million).

With a strong earning power of the Ratio Knitting Group, a dividend of HK$25 million was declared and paid.

Trade and Bills Receivables

The trade and bills receivables were amounted to approximately HK$13.0 million (2007: HK$6.1 million), and about HK$7.4 million were from trade receivables and about HK$5.7 million were from bills receivables. The ageing analysis of the HK$7.4 million trade receivables was as follows:

0 to 30 days :	HK$5.7 million
30 days to 90 days	HK$1.7 million
over 90 days	HK$0.0 million

Inventory

The inventory was amounted to approximately HK$1 million (2007: HK$1.4 million).

Bank and Cash Balances

The bank and cash balances during the year were amounted to HK$29.2 million (2007: HK$35.6 million). The decrease in the bank and cash balances was mainly due to the payment of dividend amounted to approximately HK$48.5 million during the year offsetting the net cash inflow generated from operating activities amounted to approximately HK$43.7 million together with the net cash outflow of approximately HK$1.6 million from investing activities.

Trade Payables

As at 31 March 2008, the trade payables were recorded, based on the date of receipt of goods, to be approximately HK$6.1 million (2007: HK$10.4 million). The ageing of the trade payables from 0 to 60 days was amounted to approximately HK$5.9 million.

Liquidity, Financial Resources and Capital Structure

As at 31 March 2008, Ratio Knitting had 500,000 ordinary shares authorized, issued and fully paid at HK$1.00 each and total had HK$500,000 as its equity capital. All shares rank pari passu to dividend and the company's residual assets.

The company managed its capital by regularly monitoring its current and expected liquidity requirements and ability to continue as a going concern and maximize shareholders' wealth through a balance of debt and equity ratio. The net current assets and the total assets less current liabilities as at 31 March 2008 were approximately HK$27.9 million and approximately HK$36.7 million respectively. This showed the company had strong short term debt payment ability and liquidity.

The Ratio Knitting Group had no bank and other borrowings as at 31 March 2008.

Remuneration of Employees

For the year ended 31 March 2008, the remuneration of employees of the Ratio Knitting Group was approximately HK$20.5 million.

Contingent Liabilities

The Ratio Knitting Group had no significant contingent liabilities as at 31 March 2008.

Capital Commitments

The Ratio Knitting Group had no capital commitment as at 31 March 2008.

For the year ended 31 March 2009

Financial and Business Review

For the year ended 31 March 2009, the Ratio Knitting Group's turnover was amounted to approximately HK$130.5 million (2008: HK$165.4 million). The drop in turnover was a reflection to the aftermath from the world's financial crisis starting from the end of the year 2008. One of the clients from Europe reduced its order level and requested a longer credit payment terms from the Ratio Knitting Group. The Ratio Knitting Group, therefore, decided to cut the order from this customer for the sake of prudence. Coupling with reduction in order sizes of other European customers, this resulted in a decrease of around HK$34.9 million in turnover as compared with 2008.

With the effective cost control measures through bulk purchase and off-seasonal discount of major raw materials and screening of customers' orders, the gross profit margin for the year ended 31 March 2009 increased to a level of approximately 37.8% (2008: 32.6%)

The net profit attributable to equity holders of the Ratio Knitting Group was approximately HK$31.9 million (2008: HK$37.0 million). The net margin for this year was around 24.5% (2008 : 22.4%).

During the year, no other segment gave rise to the above turnover except for the sole reported business segment in swimwear manufacturing and sales. For the year ended 31 March 2009, European markets contributed revenue of approximately HK$116.5 million to the Ratio Knitting Group, representing a decrease of around 20.0% as compared with 2008. Revenue from Hong Kong and other markets was approximately HK$13.9 million, representing a decrease of around 29.4% as compared with 2008.

The other income reduced to an amount of approximately HK$3.6 million (2008: HK$6.8 million) and mainly included the exchange gain (approximately HK$0.6 million), the sample income (approximately HK$0.8 million) and the sundry income (approximately HK$2.0 million).

In view of the earning potential of the Ratio Knitting Group, a dividend of HK$40 million was declared and paid.

Trade and Bills Receivables

The trade and bills receivables were amounted to approximately HK$13.6 million (2008: HK$13.0 million), and about HK$10.5 million were from trade receivables and about HK$3.1 million were from bills receivables. The ageing analysis of the HK$10.5 million trade receivables was as follows:

0 to 30 days	HK$7.6 million
30 days to 90 days	HK$2.9 million
over 90 days	HK$0.0 million

Inventory

The inventory was amounted to approximately HK$1.2 million (2008: HK$1.0 million).

Bank and Cash Balances

The bank and cash balances during the year were amounted to approximately HK$14.4 million (2008: HK$29.2 million). The decrease in the bank and cash balances was mainly due to the payment of dividend amounted to approximately HK$40.0 million during the year offsetting the net cash flow generated from operating activities amounted to approximately HK$26.6 million together with the net cash outflow of approximately HK$1.4 million from investing activities.

Trade Payables

As at 31 March 2009, the trade payables were recorded, based on the date of receipt of goods, to be approximately HK$10.9 million (2008: HK$6.1 million). The ageing of the trade payables from 0 to 60 days was amounted to approximately HK$10.2 million.

Liquidity, Financial Resources and Capital Structure

As at 31 March 2009, there was no change in the capital structure of Ratio Knitting and Ratio Knitting had 500,000 ordinary shares authorized, issued and fully paid at HK$1.00 each and total had HK$500,000 as its equity capital.

Facing with the harsh business environment worldwide, and especially in those countries where the Ratio Knitting Group customers located, the Ratio Knitting Group continued to closely monitor its liquidity position and mainly focused on its short term repayment ability on accounts payables. The net current assets and the total assets less current liabilities as at 31 March 2009 were approximately HK$22.0 million (2008: HK$27.9 million) and approximately HK$28.7 million (2008: HK$36.7 million) respectively. Despite such drop, the Ratio Knitting Group still showed a healthy liquidity position.

The Ratio Knitting Group had no bank and other borrowings as at 31 March 2009.

Remuneration of Employees

For the year ended 31 March 2009, the remuneration of employees of the Ratio Knitting Group was approximately HK$17.0 million.

Contingent Liabilities

The Ratio Knitting Group had no significant contingent liabilities as at 31 March 2009.

Capital Commitments

The Ratio Knitting Group had a capital commitment of HK$1.4 million which was a registered capital contribution to a subsidiary as at 31 March 2009.

For the year ended 31 March 2010

Financial and Business Review

Due to the enduring effect of the worldwide financial tsunami and spreading to some European countries, customers' orders from the Europe were severely affected. As such, the Ratio Knitting Group's turnover for the year ended 31 March 2010 was amounted to approximately HK$84.0 million (2009: HK$130.5 million) representing a decline of around 36% or HK$46.5 million as compared with 2009.

During the year, with the effect of increase in raw material costs of swimwear (the petrol-chemical byproducts), the gross profit margin for the year ended 31 March 2010 decreased to a level of approximately 33.1% (2009: 37.8%).

The net profit attributable to equity holders of the Ratio Knitting Group was reduced to approximately HK$15.3 million (2009: HK$31.9 million). The net margin was around 18.2% (2009 : 24.5%) which was due to the decrease in gross margin and reduction in other income.

For the year ended 31 March 2010, due to the impact of the worldwide financial tsunami, the Ratio Knitting Group recorded revenue of approximately HK$76.1 million from European markets, representing a decrease of around 34.7% as compared with 2009. Hong Kong and other markets contributed approximately HK$7.9 million revenue to the Ratio Knitting Group, representing a decrease of around 43.2% as compared with 2009.

The other income further reduced to an amount of approximately HK$1.5 million (2009: HK$3.6 million) and mainly included the sample income (approximately HK$0.5 million) and the sundry income (approximately HK$0.6 million).

The Ratio Knitting Group declared HK$25 million as the dividend for the year.

Trade and Bills Receivables

The trade and bills receivables were amounted to approximately HK$12.0 million, (2009: HK$13.6 million), and about HK$9.2 million were from trade receivables and about HK$2.8 million were from bills receivables. The ageing analysis of the HK$9.2 million trade receivables was as follows:

0 to 30 days	HK$5.0 million
30 days to 90 days	HK$3.6 million
over 90 days	HK$0.6 million

Inventory

The inventory was amounted to approximately HK$2.3 million (2009: HK$1.2 million).

Bank and Cash Balances

The bank and cash balances during the year were amounted to approximately HK$22.1 million (2009: HK$14.4 million). The increase in the bank and cash balances was mainly due to the payment of dividend amounted to approximately HK$15.5 million during the year offsetting the net cash flow generated from operating activities amounted to approximately HK$23.1 million.

Trade Payables

As at 31 March 2010, the trade payables were recorded, based on the date of receipt of goods, to be approximately HK$6.6 million (2008: HK$10.9 million). The ageing of the trade payables from 0 to 60 days was amounted to approximately HK$6.2 million.

Liquidity, Financial Resources and Capital Structure

As at 31 March 2010, there was no change in the capital structure of Ratio Knitting and Ratio Knitting had 500,000 ordinary shares authorized, issued and fully paid at HK$1.00 each and total had HK$500,000 as its equity capital.

The net current assets and the total assets less current liabilities as at 31 March 2010 were approximately HK$15.3 million (2009: HK$22.0 million) and approximately HK$19.0 million (2009: HK$28.7 million) respectively.

The Ratio Knitting Group had no bank and other borrowings as at 30 September 2010.

Remuneration of Employees

For the year ended 31 March 2010, the remuneration of employees of the Ratio Knitting Group was approximately HK$13.7 million.

Contingent Liabilities

The Ratio Knitting Group had no significant contingent liabilities as at 31 March 2010.

Capital Commitments

The Ratio Knitting Group had a capital commitment of HK$1.4 million which was a registered capital contribution to a subsidiary as at 31 March 2010.

For the six months ended 30 September 2010

Financial and Business Review

The Ratio Knitting Group gradually picked up the momentum of economic recovery with its corporate strategies of diversifying its customer base. The turnover for the six months ended 30 September 2010 had shown a significant growth by around 83% to the amount of approximately HK$34.9 million (six months ended 30 September 2009: approximately HK$19.1 million).

The gross profit for the period was reported to be approximately HK$16.4 million, representing a gross margin of approximately 47.0%.

The net profit attributable to equity holders of the Ratio Knitting Group for that period was recorded to be approximately HK$10.7 million, representing a net margin of around 30.8% (six months ended 30 September 2009: loss of approximately HK$4.7 million). There was approximately HK$7.3 million other income resulted from the gain on disposal of office building during the period.

European markets remained to be a major contributor of the Ratio Knitting Group's revenue as per the segmental analysis, which recorded revenue of approximately HK$33.8 million, representing an increase of around 80.9% as compared to the same period in 2009. Hong King and other markets contributed revenue of approximately HK$1.1 million, representing an increase of approximately 151.4% of the Ratio Knitting Group's revenue.

The Ratio Knitting Group declared and paid up approximately HK$22.2 million as dividend for the period.

Trade and Bills Receivables

The trade receivables were amounted to approximately HK$2.8 million. The ageing analysis of the HK$2.8 million trade receivables was as follows:

0 to 30 days	HK$2.4 million
30 days to 90 days	HK$0.4 million
over 90 days	HK$0.0 million

The decrease in trade and bills receivables on 30 September 2010 was mainly because of the seasonal effect of the industry. The peak season for orders usually starts from October to March every year. The orders from April to September relatively low in comparing with the peak season and the credit terms for customers generally range from 0 to 90 days. As such, most of the trade and bills receivables outstanding for orders in low season were settled in September before peak season commenced.

Inventory

The inventory was amounted to approximately HK$19.8 million and the increase in inventory level in comparing with the usual inventory level in March was due to the adoption of the policy to procure major fabric raw materials in off-season that enabled Ratio Knitting to enjoy both a cost saving and protection of lacking of raw materials in high season.

Bank and Cash Balances

The bank and cash balances during the period were amounted to approximately HK$8.1 million while the bank and cash balances at the beginning of the period was amounted to approximately HK$22.1 million. The decrease in the bank and cash balances was mainly due to the payment of dividend amounted to approximately HK$31.7 million during the year offsetting the net cash flow generated from operating activities amounted to approximately HK$8.6 million together with the net cash inflow of approximately HK$9 million generated from the disposal of the office.

Trade Payables

As at 30 September 2010, the trade payables were recorded, based on the date of receipt of goods, to be approximately HK$10.8 million. The ageing of the trade payables from 0 to 60 days was amounted to approximately HK$10.5 million. This was mainly due to the increase in the purchase of inventory from suppliers during the low season.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2010, there was no change in the capital structure of Ratio Knitting and Ratio Knitting had 500,000 ordinary shares authorized, issued and fully paid at HK$1.00 each and total had HK$500,000 as its equity capital.

The net current assets and the total assets less current liabilities as at 30 September 2010 were recorded to be approximately HK$6.3 million and HK$7.6 million respectively.

The Ratio Knitting Group had no bank and other borrowings as at 30 September 2010.

Remuneration of Employees

For the six months ended 30 September 2010, the remuneration of employees of the Ratio Knitting Group was approximately HK$6.4 million.

Contingent Liabilities

The Ratio Knitting Group had no significant contingent liabilities as at 30 September 2010.

Capital Commitments

The Ratio Knitting Group had a capital commitment of HK$1.4 million which was a registered capital contribution to a subsidiary as at 30 September 2010.

Disposal of Asset

During the period, the Ratio Knitting Group had disposed its office located at Lai Chi Kok, Hong Kong for a consideration of approximately HK$8.5 million. The office is now leasing back to the Ratio Knitting Group by the owner for a term of 2 years since 16 September 2010.

Outlook and subsequent events

The Ratio Knitting Group intended to extend its business arm in China and it currently established a new subsidiary named Yofiel International Group Limited which obtained a license for the use of trademark "安格薇" or "Angevil" to carry out both Internet sales and retail shop sales of underwear and swimwear products in the PRC. Products of Angevil have been introduced into the PRC market since 2007 and are currently sold in several major cities in the PRC. With such new business and geographical segment and incorporating with China Post E-Commerce (Holdings) Limited's experienced sales team of Internet support with www.babybamboo.net and www.monsters.net.cn, it is expected that the turnover for the coming years will have a remarkable growth.

The Ratio Knitting Group continues to reinforce its swimwear sales business with core customers in Europe. Currently, the Ratio Knitting Group has undergone several new product developments with its key clients and some orders are expected to be placed in the coming season.

Shipments of customers' orders continued to be delivered and normally more sales is expected to be recognized in the second half of the financial year of the Ratio Knitting Group.

H. RISK FACTORS IN RELATION TO THE ACQUISITION AND THE TARGET GROUP'S BUSINESS

Risk relating to the Acquisition

Completion of the Sale and Purchase Agreement

According to the terms of the Sale and Purchase Agreement, it is intended by the Company, the Vendor and Mr. Ma that subject to the terms and conditions of the Sale and Purchase Agreement, the Target Group will undergo the Reorganisation that the entire equity interests in the WOFE will be disposed of by the Target Company, such that immediately after the Reorganisation, the WOFE shall no longer form part of the Target Group. Pursuant to the Sale and Purchase Agreement, the Vendor and Mr. Ma jointly and severally undertake in favour of the Company that they will use their best endeavours to, or to procure the relevant parties to, assist, undertake and sign all necessary steps, acts, matters, deeds, documents and things as may consider by the Company to be necessary or desirable for or in connection with and to give effect to the Reorganisation, and the Reorganisation shall be completed on or before the date falling the first anniversary of the Completion Date (or such other date as may be agreed between the parties to the Sale and Purchase Agreement). There is no guarantee that the Reorganisation will be completed in the designated timeframe or, the Reorganisation will be eventually completed.

In this regard, the Vendor and Mr. Ma has jointly and severally undertaken to indemnify the Company and the Target Group on demand and to hold it and any of the Target Group harmless from and against all liabilities, damages, costs, claims, reduction in net consolidated assets or increase in net consolidated liabilities and all reasonable expenses which the Company may sustain, suffer, or incur as a result of the Reorganisation or incurred by the WOFE accruing from the Completion Date to the date of completion of the Reorganisation, and the Vendor shall pay to the Company on demand the full amount of any such loss as aforesaid in immediately available funds. Also as disclosed in the section headed "Information on the Target Group" above, the WOFE has not carried out any significant business activities since its incorporation on 29 December 2008 and does not have any significant assets and liabilities save and except for its holding of a motor vehicle and a cross-border driving licence. As such, save for the administrative and other expenses of the WOFE that may be incurred in the future, the Company does not expect that there will be substantial negative impact on the Enlarged Group should the Reorganisation eventually fail. Accordingly, the Directors are of the view that the risk that the failure of the Reorganisation will cause a material and adverse impact on the financial position on the Group is minimal.

Risks relating to the Target Group's business

Seasonal factor

Sales of swimwear are subject to seasonal fluctuations. The Ratio Knitting Group records relatively higher sales between October to March when overseas customers normally commence preparation for the launch of new summer collection, representing approximately 66.8%, 66.8%, and 77.2% of the Ratio Knitting Group's total turnover for each of the three year ended 31 March 2010. Should there be any material reduction in the sales of the swimwear in these peak seasons, the Ratio Knitting Group's profitability may be adversely affected.

Sustainability of the Ratio Knitting Group's profitability

For the three years ended 31 March 2010 and the six months ended 30 September 2010, the Ratio Knitting Group recorded a net profit of approximately HK$37.0 million, HK$31.9 million, HK$15.3 million and HK$10.7 million respectively despite the occurrence of global financial crisis in late 2008 which had been severely affecting the economic performance in these European countries where a majority of the Ratio Knitting Group's businesses and customers were from that geographical region. As it is uncertain whether the EU economy will continue to deteriorate or when the European market will fully recover, there is no assurance that the Ratio Knitting Group may be able to sustain its profitability.

Reliance on the European Union ("EU") market

The Ratio Knitting Group's total sales to the customers in the EU countries represented approximately 88.1%, 89.3%, 90.6% and 96.9% of the total sales of the Ratio Knitting Group for the three years ended 31 March 2010 and the six months ended 30 September 2010 respectively. As the Ratio Knitting Group derives a majority of its revenue from the exports to the EU countries, including but not limited to France, Spain, the UK and Sweden, any unexpected economic, political and social events in the EU countries may have a significant impact on retail consumption which could, in turn, affect the financial performance of the Ratio Knitting Group. For instance, the economies and financial systems of the EU countries were adversely hit by the global financial crisis in late 2008. The Ratio Knitting Group cannot assure whether the EU economy will continue to deteriorate or when the European market will recover. Should the EU's market continue to deteriorate and the Company is unable to compensate such deterioration of the EU economy with other strategic moves, the Ratio Knitting Group's business operations and financial positions will be adversely jeopardised. Moreover, if the Ratio Knitting Group is not able to diversify its market and if there is any event that leads to consistently low demand for apparel products in the EU countries, the performance of the Ratio Knitting Group, in turn, could be affected.

Production under the Processing Agreement

The Ratio Knitting Group's manufacturing operations are undertaken by the PRC Processing Partners pursuant to the Processing Agreement entered into with the Ratio Knitting Group, which has been extended and is expiring on 4 April 2012. The Ratio Knitting Group's production relied on the processing arrangement as stipulated under the Processing Agreement. A failure of the PRC Processing Partners to perform its obligations under the Processing Agreement could adversely affect the Ratio Knitting Group's operations.

The renewal agreement dated 16 October 2001 to the Processing Agreement will expire on 4 April 2012 and is generally required to be extended within the six months period prior to the expiry date. Any failure to extend the Processing Agreement with the PRC Processing Partners would have an adverse effect on the Ratio Knitting Group's operations.

Risk relating to the tenancy agreement for the processing arrangement

As at the Latest Practicable Date, the Properties was leased by Ration Knitting for the production carried out by the PRC Processing Partners for a term 10 years till 30 September 2011 and a term of 13 years till 30 June 2018, pursuant to the tendency agreements entered into between Ration Knitting as the leasee, and a local cooperation and a PRC individual as the leasor, which were dated 2 August 2001 and 30 May 2005 respectively.

According to the PRC legal advisers, they were unable to ascertain through land searches at the local land bureau whether the lessors currently own the Properties, or whether the lessors have the rights or authorisation to lease such piece of land under the tenancy agreements. If there is any dispute as to the legal title of the leased Properties for production and/or if the Ratio Knitting Group's right to occupy the Properties for production comes into question, or the relevant leases are considered void by the relevant PRC authorities, the Properties may have to be vacated and relocated elsewhere. The Ratio Knitting Group may, as a result, incur additional expenses in relocation and the Ratio Knitting Group may not be able to identify another property which is comparable in size and location. In such cases, the Ratio Knitting Group's business operations may be adversely affected.

Reliance on a small number of customers for a significant portion of the Ratio Knitting Group's sales

The Ratio Knitting Group's top 10 customers, all being independent third parties, are well known European apparel makers with recognised designer labels and brands. For the three years ended 31 March 2010 and the six months ended 30 September 2010, sales to the top 10 customers of the Ratio Knitting Group, in aggregate, accounted for approximately 65.4%, 67.6%, 70.9% and 87.5% of the Ratio Knitting Group's turnover respectively. During the same periods, sales to the Ratio Knitting Group's largest customer accounted for approximately 13.8%, 10.3%, 19.5% and 21.6% of the Ratio Knitting Group's turnover respectively.

The Ratio Knitting Group has been engaging in business with its top 10 customers for a period ranging from 3 to 30 years. However, the Ratio Knitting Group has never entered into any long term sales contracts with its customers, including any of its top 5 customers, allowing customers to terminate their respective relationships with the Ratio Knitting Group at any time if they desire to do so. During the three years ended 31 March 2010 and the six months ended 30 September 2010, the entire Ratio Knitting Group's revenue was attributable to the manufacture and sale of designer label apparel on an OEM basis.

There is no guarantee that such customers will continue to conduct business with the Ratio Knitting Group. In the event that the Ratio Knitting Group's customers, including the top 10 customers, materially reduce their purchase orders with the Ratio Knitting Group or cease to conduct business with the Ratio Knitting Group and the Ratio Knitting Group fails to obtain a comparable level of purchase orders from new customers, the Ratio Knitting Group's business, results of operations and financial condition may be adversely affected.

Reliance on key executives and personnel

The success of the Ratio Knitting Group depends, to a significant extent, on the expertise and experience of Ms. Ng Suk Fun, Fanny, Ms. Wong Yan Chu, Mr. Wong Hau Yan, Michael and Ms. Yu Wai Yin, Vicky, who are the Ratio Knitting Group's key management personnel. The Ratio Knitting Group's key management personnel are well-acquainted with market information and technical knowledge on manufacturing as well as sales and marketing of the apparel products. Their experience and leadership are critical to the Ratio Knitting Group's operations and financial performance.

As at the Latest Practicable Date, none of the key management personnel has entered into service contract with Ratio Knitting. There is no assurance that the Ratio Knitting Group can retain its key management personnel for their future services, nor the Ratio Knitting Group assures that qualified personnel can be engaged to replace any possible loss of such key management personnel in a timely manner. If the Ratio Knitting Group cannot retain or otherwise find a suitable replacement for its key management personnel in a timely manner in the future, the Ratio Knitting Group's future operations may be adversely affected.

Price fluctuations of raw materials

During the three years ended 31 March 2010 and the six months ended 30 September 2010, the Ratio Knitting Group mainly used fabrics as its major raw materials for the manufacture of swimwear and other apparel products. During the same periods, the purchase of fabrics accounted for approximately 31.3%, 30.6%, 30.7% and 41.7% respectively of its total cost of procurement.

For the three years ended 31 March 2010 and the six months ended 30 September 2010, a total of 6 suppliers, 8 suppliers, 8 suppliers and 8 suppliers were fabric suppliers among the Ratio Knitting Group's top 10 suppliers respectively. During the same periods, the relationships between the Ratio Knitting Group and each of these major suppliers of fabric ranged from over five to ten years. The Ratio Knitting Group has no long-term supply contracts with all of its suppliers of fabric, therefore fluctuations in the price of fabric may harm the Ratio Knitting Group's business if it is unable to pass on its increased costs to its customers.

The Ratio Knitting Group did not engage in any hedging activities against any possible fluctuations in the raw materials prices during the three years ended 31 March 2010 and the six months ended 30 September 2010 or do not formulated any strategy to reduce the exposure at present. If there are constant upward adjustments to the prices of the raw materials and the Ratio Knitting Group is unable to pass the increased costs onto its customers or the Ratio Knitting Group is unable to secure adequate supply of raw materials at market prices to meet its ongoing production requirements, the Ratio Knitting Group's profitability may be adversely affected.

Increase in the cost of labour in the PRC

While the amount of processing fee payable by the Ratio Knitting Group to the PRC Processing Partners will be subject to, among other things, the labour costs incurred for the production. For the three years ended 31 March 2010 and the six months ended 30 September 2010, the cost of direct labour accounted for approximately 14.6%, 10.6%, 13.2% and 39.0% respectively of the cost of sales. The PRC Processing Partners does not maintain long-term contracts with its workers and prices that the PRC Processing Partners paid for the workers may increase due to a greater industry demand or a shortage of supplies of labour. The labour costs in the PRC have increased and may continue to increase in future. If the processing fee payable by the Ratio Knitting Group is increased due to that the PRC Processing Partners is unable to identify and employ other appropriate means to reduce costs of its own, or the Ratio Knitting Group is unable to pass on such increase in the cost of labour to its customers, the results of the Ratio Knitting Group's operations may be adversely affected.

Reliance on major third-party suppliers

During the three years ended 31 March 2010 and the six months ended 30 September 2010, the Ratio Knitting Group had not less than 22, 20, 17 and 11 suppliers respectively including suppliers of raw materials.

During the three years ended 31 March 2010 and the six months ended 30 September 2010, the procurement from the Ratio Knitting Group's top 10 suppliers accounted for an aggregate of approximately 50.6%, 55.5%, 54.2% and 62.0% of its total cost of procurement respectively. During the same periods, the Ratio Knitting Group had not entered into any long-term procurement agreement with its suppliers. Instead the Ratio Knitting Group placed orders with specific specifications and requirements for the supply of raw materials with the suppliers. The pricing, quality and delivery time of each order or outsourcing transactions are subject to further negotiations between the Ratio Knitting Group and the respective raw materials suppliers on a deal by deal basis. As a result, there is no assurance that the Ratio Knitting Group will always be able to agree on all the commercial terms with the raw materials suppliers with respect to each of the orders or the Ratio Knitting Group's existing raw material suppliers will continue to accept the Ratio Knitting Group's orders on the terms as stipulated by the Ratio Knitting Group. In the event that any of the Ratio Knitting Group's major raw material suppliers materially reduces or ceases its supplies or services to the Ratio Knitting Group, and the Ratio Knitting Group fails to source the required raw materials from other raw material suppliers to supply the same or similar types and quantities of products in a cost effective and timely manner, the business operations and financial performance of the Ratio Knitting Group may be adversely affected.

Credit risk on trade and other receivables

In respect of trade and other receivables, the Ratio Knitting Group's exposure to credit risk is influenced mainly by the characteristics of each individual customer. For the three years ended 31 March 2010 and the six months ended 30 September 2010, the concentration of credit risk was approximately 52.4%, 90.3%, 49.8% and 86.5% of the total trade and other receivables due from the Ratio Knitting Group's top five customers respectively.

As at 30 September 2010, receivables that were past due but not impaired related to a number of customers. No impairment allowance has been made in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

There is no guarantee that the total amount of trade receivables, either outstanding receivables or past due receivables, will be able to be collected by the Ratio Knitting Group. In the event that the Ratio Knitting Group's customers, including the top five customers, delay or refuse to fulfill their obligations in paying the receivables owed to the Ratio Knitting Group, the Ratio Knitting Group's business, results of operations and financial condition may be adversely affected.

Yofiel's development on its underwear business

As disclosed in the section headed "Information on the Target Group" above, Yofiel intends to be engaged in the sales of underwear in the PRC both on the Internet and through distributors in their retail shops. Though the Group and Ratio Knitting will assist Yofiel respectively in online sales of and the manufacturing and design of its products, Yofiel may have to source some underwear production factories in the PRC to produce its underwear products and to set up its distribution network for its "Angevil" underwear products. Also the existing managements of the Group and the Ratio Knitting Group may not have extensive experience in the PRC distribution business. As such, in the event that Yofiel may not successfully procure its production and set up distribution channel for its "Angevil" underwear products, the financial performance of the Ratio Knitting Group may be adversely affected.

Lack of experience in operating distribution network in the PRC

Both the Group's and the Ratio Knitting Group's managements do not have significant experience in the appeal distribution business in the PRC. As a result, Yofiel's start up in its distribution arrangement for its products will heavily rely on, among other things, the efforts to recruit appropriate staff with relevant experience. Yofiel currently intends to first build up brand recognition of its "Angevil" underwear products through setting up web-based Internet shops with the assistance of the Group before proceeding to establish the distribution network. In the meantime, Yofiel will conduct the feasibility studies for the establishment of the distribution network in the PRC. However, there is no assurance that Yofiel will be able to successfully establish its distribution network in 2012.

Reliance on distributors for sale of Yofiel's products

It is the present intention of Yofiel to establish a distribution network in the PRC by selling its products on a wholesale basis to distributors who subsequently sell the products to end customers through retail outlets operated by themselves or their sub-distributors, for this distribution arrangement Yofiel will have to enter into agreements with the distributors. However, there is no assurance that Yofiel will be able to enter into, or to renew the distributorship agreements or renew such agreements on terms that are favourable to Yofiel. In addition, there is also no assurance that the distributors will not breach their distributorship agreements or fail to comply with their obligations thereunder. In such event or events, the Ratio Knitting Group's results of operations may be adversely affected. Under such distribution model, Yofiel will not have control over the sub-distributors or retail outlets or the ultimate sales by distributors, sub-distributors and the retail outlets that they operate. If the distributors do not continue to open new retail outlets, either by themselves or through their sub-distributors, or are otherwise unsuccessful in selling Yofiel's products or Yofiel fails to effectively supervise and manage its distributors, their sub-distributors or the retail outlets they operate, Ratio Knitting Group's result of operations may be adversely affected.

Online shopping business depends on the continued growth of the Internet and online applications

The development of online shopping market is substantially dependent upon the use of the Internet as a medium for making purchases by individuals. Though the use of Internet and other online services is considered popular and growing, it is not assured that the use of Internet will continue to grow or that a sufficiently broad base of population will adopt, and continue to use, the Internet as a medium of shopping. Moreover, concerns about fraud, privacy, lack of trust and other problems may discourage shoppers from adopting the Internet as a medium of making purchases. If these concerns are not adequately addressed, they may inhibit the growth of the online shopping market and accordingly, affects the business prospects, financial condition and operation results of the online sales operations of the Ratio Knitting Group.

Currency conversion and exchange rate

The Ratio Knitting Group is subject to financial risk in connection with the fluctuations of Renminbi. The Ratio Knitting Group procured all the principal raw materials such as fabrics and other accessories as required by the Group in the PRC and in Hong Kong. For the three years ended 31 March 2010 and the six months ended 30 September 2010, the total sales were mainly denominated in US dollars and Hong Kong dollars as sales proceeds while the total purchases were mainly denominated in Renminbi and Hong Kong dollars. The Ratio Knitting Group was exposed to foreign currency purchases in Renminbi.

During the recent years, there has been substantial appreciation in Renminbi. For the three years ended 31 March 2010, a total of approximately HK$3,748,000 net exchange gain, a total of HK$585,000 net exchange gain and a total of HK$42,000 net exchange gain was recorded respectively. Such profit and loss was mainly arising from the appreciation in the Renminbi.

The Ratio Knitting Group receives much of its revenue in US dollars but incurs much of its expenses in Renminbi. As all of the Ratio Knitting Group's total turnover was derived from sales to customers outside of the PRC, any future appreciation of the value of the Renminbi may have an impact on the costs of raw materials purchased by the Ratio Knitting Group. As the Ratio Knitting Group has not sought to reduce this exchange rate exposure by hedging, changes in the PRC government control of currency conversion rates with regard to the Renminbi and future movements in such exchange rates may adversely affect the financial condition and operating results of the Ratio Knitting Group.

Possible infringement of trademarks and other intellectual property rights

Save as the trademark "安格薇" or "Angevil" which Yofiel is licensed to use, there are no other trademarks, patents or other intellectual or industrial property rights which are material in relation to the Ratio Knitting Group's business.

As part of the Group's value added services to its customers, it provides in-house design services to the customers from time to time. There can be no assurance that the Group's designs will not infringe any third parties' intellectual property rights. The Ratio Knitting Group has not received any claim of this nature. Nonetheless, there can be no assurance that the Group will not face such claims in the future. In such event, the business of our customers and thus the business of the Group could be adversely affected.

Legal and other regulatory reforms and judicial environment

The PRC legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority but do not have binding precedential effect. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organisation and governance, property title, foreign investment, commerce, taxation and trade. Because these laws, regulations and legal requirements are relatively new and evolving, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainties than those in jurisdictions under common law systems. These uncertainties may limit the legal protections available to the Ratio Knitting Group. There is no prediction on the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. Any changes to such laws and regulations may materially increase the cost and regulatory exposure of the Ratio Knitting Group in complying with them.

I. INDUSTRY OVERVIEW

World Demand for Swimwear

The world demand for swimwear has been leading a gradual growing trend during the recent years. In 2008, the retail market for swimwear has grown to over US$10 billion. Europe and North America have been the key regions with higher demand of swimwear in term of retail market value, each of which represented over 20% of the total world retail market.

It is expected that the world and regional demand of swimwear would continue to lead a growing trend and Europe was expected to remain as the key region with the highest demand of swimwear.

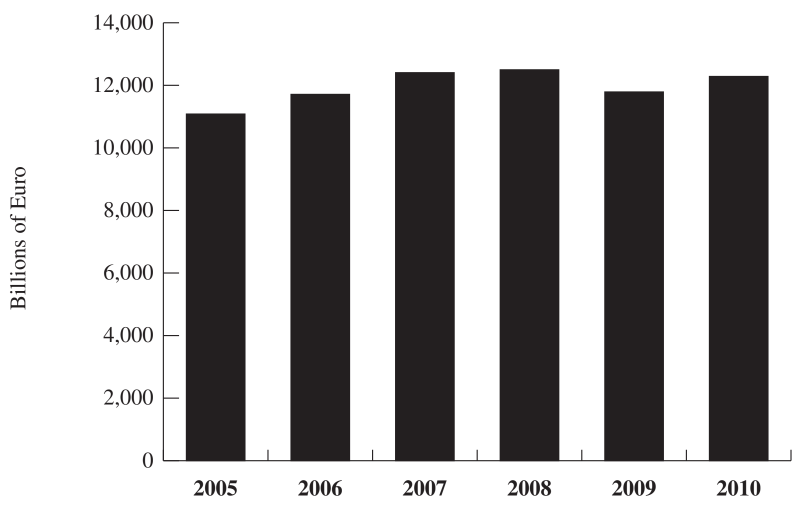
European Union

EU economy remains a key factor driving the demand of EU for clothing including swimwear and underwear.

Overview of the EU economy

According to the Eurostat, EU's gross domestic products ("**GDP**") grew from approximately Euro 11,084 billion in 2005 to approximately Euro 12,284 billion in 2010, representing a compound annual growth rate ("**CAGR**") of approximately 2.1%. The drop in the annual growth rate of the GDP of EU in 2009 from 2008 was mainly due to the global financial crisis broke out in 2008. Based on the estimates from Eurostat, the GDP for the year 2011 is expected to reach approximately Euro 12,703 billion, representing a growth of approximately 3.4%. The following chart sets forth the GDP between 2005 and 2010 for the EU.

GDP of EU between 2005 and 2010



Source: Eurostat

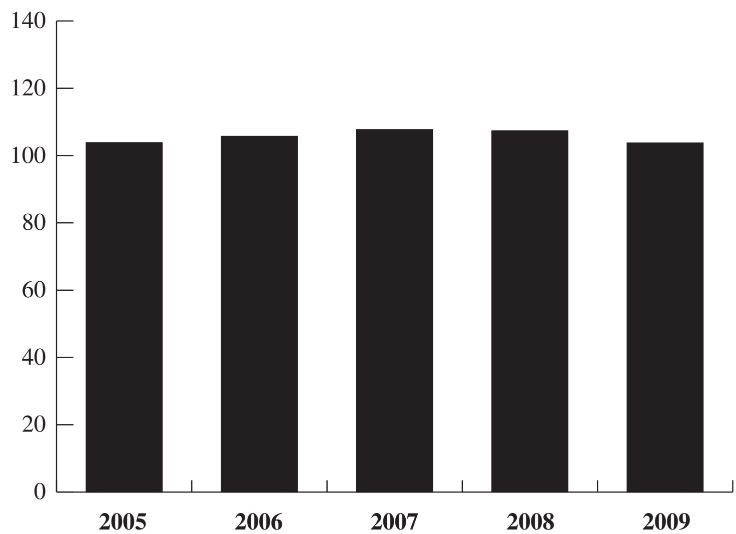
Gross disposable income of households per capita of EU

Based on statistics published by Eurostat, the real adjusted gross disposable income of households per capita of EU has been increasing gradually during the period from 2005 to 2009. The real adjusted gross disposable income of households per capita of EU increased from approximately Euro 17,474 in 2005 to approximately Euro 18,967 in 2009, representing a CAGR of approximately 2.1%.

Household expenditure per inhabitant in EU

According to the statistics published by Eurostat, household expenditure per inhabitant in EU on clothing and footwear has demonstrated a relatively constant trend during the period from 2005 to 2009. Set out below the chart showing the trend of household expenditure per inhabitant in EU from 2005 to 2009 (index with base year 2000 (=100)).

Household Expenditure per inhabitant in EU from 2005 to 2009



Source: Eurostat

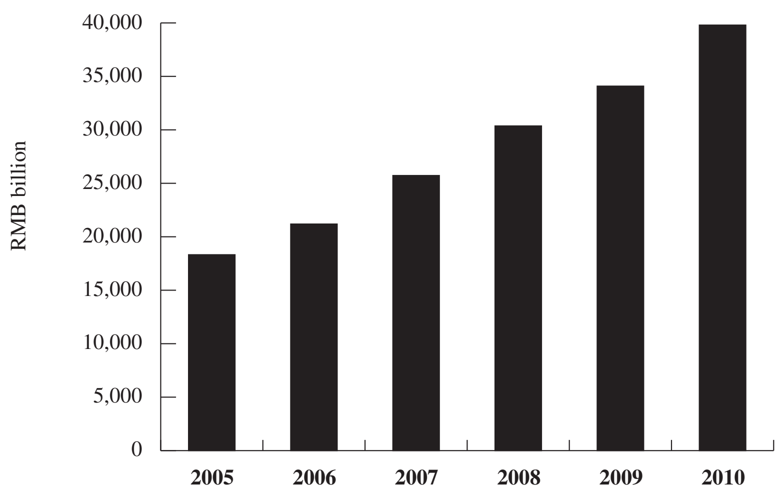
The PRC

The PRC economy remains a key factor driving the demand of the PRC for clothing including swimwear and underwear.

Overview of the PRC economy

According to the National Bureau of Statistics of China ("**NBS**"), from 2005 to 2010, GDP of the PRC grew from approximately RMB18,321.7 billion to RMB39,798.3 billion, representing a CAGR of approximately 16.8%. The following chart sets forth the GDP between 2005 to 2010 for China.

GDP of China between 2005 to 2010



Source: National Bureau of Statistics of China

According to the NBS, the disposal income of the PRC urban households has been increasing significantly because of the rapid growth of the China economy. According to the NBS for the period from 2005 to 2010, the per capita annual disposable income of the PRC urban households increased from approximately RMB10,493 in 2005 to approximately RMB19,109 in 2010, representing a CAGR of approximately 12.7%.

Per capita annual consumption expenditure on clothing of the PRC urban household

As mentioned in the aforementioned paragraph, the per capita annual disposable income of the PRC urban households increased during the period from 2005 to 2010. According to the NBS, the average per capita annual consumption expenditure on clothing of the PRC urban households has also increased from approximately RMB800.51 in 2005 to approximately RMB1,165.9 in 2008, represented a CAGR of approximately 13.35%.

Competition between High-end and Low-end Swimwear Products

For the high-end swimwear products, the retail prices were ranging from about US$50 to US$200. However, the retail price ranges for low-end swimwear products are about US$10 to US$50. Materials for most of the swimwear products are basically indifference except for some special functioned swimwear products like UV protection. Therefore, in order for the high-end swimwear products to successfully compete with the low-end swimwear products, the key focuses are the brand names, fashionable designs, construction of detail parts like crystals, badges and so on.

China OEM Clothing Industry and Competition

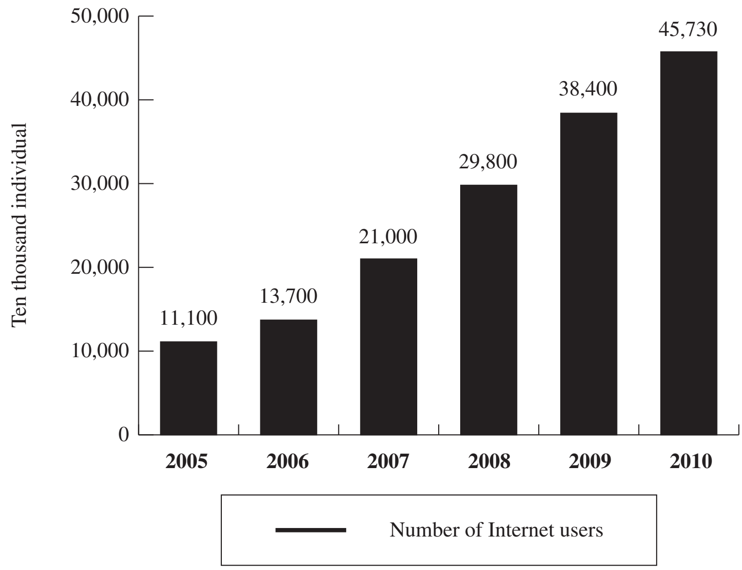
Ratio Knitting is an OEM and ODM partner with its customers and is specialized in marking a wide variety of stylish high-end swimwear and beachwear products.

The PRC is one of the world's largest producers and exporters of garments. Most of the PRC clothing manufacturers mainly focus on export oriented OEM segment of the industry, taking advantage of scale of production and the PRC's lower cost due to labour intensive manufacturing processes required in the industry.

The PRC's OEM apparel industry has been highly fragmented with intense competition. Given that the operational complexity and financial requirement for the establishment of the OEM apparel production facilities are not demanding and thus industry entry barrier is relatively low, there has been intense competition in the PRC's OEM apparel market with a wide range of manufacturers of different sizes. With such high fragmentation rate within the OEM garment industry in the PRC and such low product differentiation, the Directors believe there is no particular player in the swimwear OEM market that is capable of dominating the industry.

Online Shopping in China

According to the China Internet Network Information Center ("**CNNIC**"), China's online population rose from 384 million Internet users in 2009 by 19.1% to reach 457 million Internet users by end of 2010, with around 73 million new users came online. The chart below shows the growth in online population during the period between 2005 and 2010.



As reported by CNNIC, the number of online shoppers grew by 48.6% to approximately 160.51 million in 2010 from approximately 108.00 million in 2009, making ecommerce the fastest-growing Internet activity.

Group-buying was another emerging sector online shopping, with user numbers reaching 18.75 million in 2010. According to CNNIC, it is forecasted that number of group-buying online customers will continue to grow in 2011.

The value of online sales rose by 22% to RMB4.5 trillion. There were about 25,000 e-commerce sites at the end of 2010, compared with 20,700 in mid-2010.

The quicker growth of web shopping users has shown a strong development trend of e-commerce market in China. As the application of e-commerce of small and medium enterprises tends to be normal, the retail sales business of network become routine and the subject of web shopping market increasingly gets stronger. Meanwhile, in the first half year of 2010, some new styles and opportunities have emerged in the web shopping market. Firstly, the rise of bulk purchase model takes on a development trend of regional e-commerce services; secondly, shopping websites shift towards mobile platform and mobile e-commerce is closely arranged; thirdly, B2C develops towards mainstream and web shopping pays more attention to user experience and safety guarantee, etc.; fourthly, web shopping sites speed up their pace of self-constructing logistics or providing of logistics through cooperation and actively enhance the service foundation under the line. In addition, as the fight for free transportation expenses is started again, web shopping is increasing its speed to penetrate towards the social public through media publicity and promotion activities.

China Underwear Industry and Competition

At present, China's underwear market has annual sales of approximately RMB20 billion to 50 billion with an annual growth rate of nearly 20%. Imported brands, which have mostly set up factories in the PRC, account for approximately 60% of the market share in China.

The competition in the retail of underwear in the PRC is mainly based on branding, style, outlet coverage, product quality, customer service and the ability to retain repeat customers. The barrier to entry in the market is mainly the difficulties in hiring good designers and technicians to ensure product style and quality, and reacting promptly and appropriately to changes in market trends.

On the other hand, competitors in respect of underwear in online shopping in the PRC include the Internet sellers in Chinese and foreign online auction and shopping websites, such as the online auction and shopping platform operated by several famous Internet companies in the PRC and foreign countries.

J. REGULATORY OVERVIEW

1. The principal laws and regulations applicable to the Target Group's operation in the PRC include the following:

- The Product Quality Law of the PRC (中華人民共和國產品質量法) was enacted on 22 February 1993 and amended on 8 July 2000. This law applies to all production and marketing activities within the territory of the PRC. Manufacturers and distributors are responsible for the product quality according to the provision of the law. Distributors who have indemnified end customers for respective loss or damages on product quality may counter claim on the indemnities against the manufacturers who are mainly responsible for damages or losses caused by the defected products.

- The Consumer Protection Law of the PRC (中華人民共和國消費者權益保護法) was promulgated on 31 October 1993 and enacted on 1 January 1994 which protects consumers' rights when they purchase or use goods and accept services. All manufacturers or distributors have to ensure that their products and services will not cause damage to person and properties.

- The Trademark Law of the PRC（中華人民共和國商標法）was promulgated on 23 August 1982, amended as at 22 February 1993 and 27 October 2001 which protects the registered trademark registrants against any infringement of the exclusive right to use a registered trademark.

- The Foreign Exchange Administration Rules of the PRC（中華人民共和國外匯管理條例）which was firstly promulgated by the State Council of the PRC（中華人民共和國國務院）on 29 January 1996, amended on 14 January 1997 and further amended on 1 August 2008. According to the Foreign Exchange Rules and the Administrative Provisions on the Settlement, Sale and Payment of Foreign Exchange（《結匯、售匯及付匯管理規定》）which was implemented on 1 July 1996 and other relevant provisions, Foreign currency is freely convertible into Renminbi for payments and settlement of current account items without the approval of foreign exchange administrative authorities, such as trade and service-related transactions which are properly supported by commercial documents evidencing such transactions.

2. The principal laws and regulations relating to processing-on-order business in the PRC, include but not limited to:

- "Provisional Administrative Measures on Approval of Processing Trade" (《加工貿易審批管理暫行辦法》)

- "Monitoring Measures on Processing Trade Goods by the Customs of the People's Republic of China" (《中華人民共和國海關對加工貿易貨物監管辦法》)

- "Notice of Ministry of Commerce on Improvement of Processing Trade Administration" (《商務部關於加強加工貿易管理有關問題的通知》)

- "Administrative Measures on Processing Trade Order Consumption by the Customs of the People's Republic of China" (《中華人民共和國海關加工貿易單耗管理辦法 》)

- "Administrative Measures on Scraps, Residual Materials, Defective Products, By-products and Disaster Bonded Goods of Processing Trade by the Customs of the People's Republic of China" (《中華人民共和國海關關於加工貿易邊角料、剩餘料件、殘次品、副產品和受災保税貨物的管理辦法》)

According to the above regulations, for operating processing trade, prior approval must be obtained from foreign economic and trade approving authority, completion of customs registration procedures and compliance with relevant regulations regarding the filing of processing trade goods, import and export declarations, processing, supervising and clearance verification procedures.

3. The principal laws and regulations relating to production and sale business in the PRC, include but not limited to:

- "Standardization Law of the People's Republic of China" (《中華人民共和國標準化法》)

- "Regulations for the Implementation of Standardization Law of the People's Republic of China" (《中華人民共和國標準化法實施條例》)

- "Product Quality Law of the People's Republic of China" (《中華人民共和國產品質量法》)

- "Consumer Protection Law of the People's Republic of China" (《中華人民共和國消費者權益保護法》)

- "Administrative Measures on Promotion Activities of Retailers" (《零售商促銷行為管理辦法》)(Applicable only to companies with domestic retail business)

According to the above regulations, enterprises shall conduct production under the corresponding production standards and are responsible for the quality of products they produced. If consumers or others are suffering from damages due to the products they produced or services rendered, enterprises shall assume the corresponding legal responsibilities in this regard. All promotion activities made by retailers shall comply with relevant regulations under the Administrative Measures on Promotion Activities of Retailers (《零售商促銷行為管理辦法》).

4. The principal laws and regulations relating to Internet on-line sale business in the PRC, include but not limited to:

- "Regulations on Telecommunications of the People's Republic of China" (《中華人民共和國電信條例》)

- "Administrative Measures on Telecommunication Business Operating Licenses" (《電信業務經營許可管理辦法》)

- "Administrative Measures on Internet Information Services" (《互聯網信息服務管理辦法》)

- "Administration Measures on Internet Domain Names in China" (《中國互聯網絡域名管理辦法》)

- "Provisional Administration Measures On Online Trade of Goods and Related Services" (《網絡商品交易及有關服務行為管理暫行辦法》)

According to the above requirements, the PRC implements a licencing system on operating Internet information services business. Any entity or individual who engages in providing Internet information services should apply the Value-added Telecommunications Service Operating Permit for Internet Information Services according to the laws. For legal persons, other economic organizations or individual industrial and commercial households who engage in commodity trading and relevant service activities through Internet and have registered and obtained business licence from the industrial and commercial administration bureau should publish the information set out in their licenses or its electronic link label relating to their licenses at the home page of their websites or obvious positions on the business websites. The commodity or services traded on Internet should comply with the requirements of the laws, rules and regulations. For commodity or services prohibited by laws and regulations, the operators must not perform any trade activity on Internet.

5. For those who are engaging in domestic processing-on-order business in China, in addition to observing the requirements involving in the processing-on-order business and production as mentioned in the Paragraph 2 above, it is also necessary to observe, including but not limited to, the requirements of the Chinese laws and regulations in environmental protection, labor administration and taxation, and the details are as follows:

With regard to environmental protection, the requirements of The Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Administrative Regulations on Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), Administrative Measures on Inspection and Acceptance of Environmental Protection of Completed Construction Projects (《建設項目竣工環境保護驗收管理辦法》), Law on Prevention and Control of Air Pollution (《大氣污染防治法》), Law on Prevention and Control of Water Pollution (《水污染防治法》), Law on Prevention and Control of Pollution From Environmental Noise (《環境噪聲污染防治法》), and Law on Prevention and Control of Environmental Pollution by Solid Wastes (《固體廢物污染環境防治法》) and the requirements of other relevant laws and regulations should be observed. According to the aforesaid requirements, by pinpointing at the construction projects that affect the environment, the construction units should entrust an environmental impact assessment institution to issue an environmental impact report, environmental impact statement or environmental impact registered form, and report it to the environmental protection administrative department who is having the approval right for approval. For construction projects that need supporting environmental protection facilities to be constructed as ancillary construction, the facilities must be designed, construct and put into operation simultaneously with the subject projects. After the completion of the construction project, the construction unit should apply to the administrative department of environmental protection that has approved the environmental impact report, environmental impact statement or environmental impact registered form of the construction project for acceptance of the completed supporting environmental protection facilities. For enterprises and institutions discharging pollutants, they shall apply and report for registration in accordance with the requirements of the administrative department of environmental protection under the State Council and shall conduct pollutants disposing activities under the law. For enterprises and institutions that their discharged pollutants have exceeded the national or local prescribed standards, they are required to pay the standardized pollutants discharging fees for the excess discharge according to the state regulations and are responsible for rectifying the situation.

With regard to labor administration, the requirements of Labor Law of the People's Republic of China (《中華人民共和國勞動法》), Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), Provisional Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), Regulations on Work Injury Insurance (《工傷保險條例》) and Provisional Measures on Maternity Insurance for Enterprises Employees (《企業職工生育保險試行辦法》) and the requirements of other relevant laws and regulations should be observed. According to the above requirements, domestic enterprises in China should enter into labor contract with workers for the establishment of labor relationship pursuant to the law, and specify the agreements in the labor contract regarding the term of labor contract, work content, work location, working hours, rest days and holidays, and labor remuneration that are in compliance with the requirements of the law. The employing unit and workers should perform their respective obligations in full under the agreement of the labor contract. It also requires production-operating units to possess the production safety environment stipulated by law requirements, national standard or industry standard, enhances the supervision and administration on production safety and provides workers with working environment and conditions that are in compliance with the statutory requirements, offers production safety education and training to practitioners for preventing and reducing production safety incidents and avoids and diminishes occupational hazards. Furthermore, it requires that the design, manufacturing, installation, utilization, inspection and maintenance of safety facilities should comply with national standard or industry standard. Moreover, the employing units should pay endowment, work injury, maternity, medical and unemployment insurance premiums for their staffs.

6. The principal Hong Kong laws and regulations applicable to the Target Group's operation include the following:

- The Employee Compensation Ordinance is to protect all its employees on a non-contributing basis for work injuries. It also laid down details term and rights of employees in respect of injuries or death caused by accidents arising out of and in the course of employment or by prescribed occupational diseases.

- The Departmental Interpretation on Practice Notes 21 (Revised) "Locality of Profits" ("**DIPN21**") of the Inland Revenue Department, which is amended in December 2009 to replace those issued in March 1998, states that in return for the processing service, the Hong Kong company pays a subcontracting charge to the Mainland enterprise. The legal title to the raw materials and finished goods remains with the Hong Kong company. In the Department's view, the Hong Kong company's operations in Mainland China complement its operations in Hong Kong. Recognising the operations of the Hong Kong company in the Mainland, an apportionment of profits on a 50:50 basis is usually accepted.

7. Conclusion

Ratio Knitting, the PRC Processing Partners and the Processing Agreement have complied with the relevant laws, regulations and measures both in Hong Kong and the PRC which are relevant to the operations and business of the Ratio Knitting Group in all material respects and have obtained all necessary licenses, approval and permits from relevant regulatory authorities which are material for the operations in the PRC.

DIPN 21 can determine the locality of Ratio Knitting's profits derived from its manufacturing and trading activities carried out in the PRC and Hong Kong respectively. As Ratio Knitting has to settle the processing fee to the PRC Processing Partners in RMB, the exchange rule would guard against the money exchange from Hong Kong dollar to RMB in this aspect. And there is no tax disputes encountered by the Ratio Knitting Group.

The Company is advised by Ratio Knitting Group that the environmental protection regulations as mentioned in Paragraph 5 above only applied to the previous construction of the supporting environmental protection facilities in the factory that is currently rented by Ratio Knitting for the production carried out by the PRC Processing Partners.

Since the PRC processing Partners did not engage in production activities that discharge pollutants, save for the acceptance of the completed supporting environmental protection facilities already granted by local administrative department of environmental protection regarding the factory located at Humen District, Dongguan, the PRC Processing Partners are not required to undertake other specific measure in its daily operation in accordance with the applicable laws and regulations in relation to environmental protection.

To the best Knowledge of the Directors, for the three years ended 31 December 2007, 2008 and 2009 and the six months period ended 30 June 2010, the PRC Processing Partners had not incurred any material costs of compliance with the applicable environmental laws and regulations and they do not currently foresee there will be any significant cost of compliance incurred going forward.

K. FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a direct wholly-owned subsidiary of the Company, and each of Ratio Knitting, the WOFE and Yofiel will be indirectly owned by the Company as to 99% effective interest. The financial information of the Target Group will be consolidated into the consolidated financial statements of the Group following the Completion.

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III of this circular, assuming that Completion had taken place on 30 June 2010, the total assets would increase from approximately HK$357,422,000 to HK$783,628,000 as at 30 June 2010. The total liabilities would increase from approximately HK$59,922,000 to approximately HK$134,862,000 as at 30 June 2010. The net assets would increase from approximately HK$297,500,000 to approximately HK$648,766,000 as at 30 June 2010.

The Group had an audited net loss attributable to the owners of the Company of approximately HK$1,296,000 for the year ended 31 December 2009. Based on the unaudited pro forma consolidated income statement of the Enlarged Group set out in Appendix III to this circular, the Enlarged Group would have a net loss attributable to the owners of the Company of approximately HK$314,923,000 for the year ended 31 December 2009 mainly due to the impairment loss of HK$328,810,000 recognised during the year ended 31 December 2009 as a result of the Completion assuming that Completion had taken place on 31 December 2009. As disclosed in note (x) to the unaudited proforma financial information of the Enlarged Group in Appendix III to this circular, an impairment test in respect of the goodwill resulting from the Acquisition conducted in accordance with Hong Kong Accounting Standard 36 “Impairment of Assets” issued by the Hong Kong Institute of Certified Public Accountants involves the determination of the recoverable amount of the cash-generating unit to which the goodwill has been allocated, being the higher of the cash-generating unit’s fair value less costs to sell and its value in use. For the purpose of the preparation of the unaudited pro forma financial information, the Directors estimate that the fair value less costs to sell of the Ratio Knitting Group is approximately HK$395,000,000, and an impairment of approximately HK$328,810,000 is recognised during the year ended 31 December 2009 and as at 30 June 2010. The reporting accountants concur with the Directors’ assessment of impairment of goodwill in the audited pro forma financial information. Since the fair value of the Convertible Preference Shares, Promissory Notes and Consideration Shares as at the date of Completion will be used to calculate the actual impairment of the Enlarged

Group's goodwill which may be different from their fair values used in the preparation of the unaudited pro forma financial information of the Enlarged Group, the actual goodwill arising from the Acquisition, if any, may be different from the estimated amount as presented above. Despite the impairment loss as mentioned above and having considered, in particular, the synergies that will be brought about pursuant to the Acquisition as detailed under the sub-heading of "Business Development" in the section headed "Information of the Target Group's Business" above and the section headed "Reasons for and benefit of the Acquisition" below and the historical profitability of the Ratio Knitting Group, the Directors consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company's reporting accountants, RSM, issued the Audit Qualifications regarding the inventory balances in the accountants' report on the Ratio Knitting Group for the three years ended 31 March 2008, 2009 and 2010, and six months ended 30 September 2009 and 2010 (the "**Accountants' Report**") as set out in Appendix II to this circular. The Audit Qualifications is mainly due to the fact that (i) RSM did not observe the counting of the physical inventories as of 1 April 2007, 31 March 2008, 31 March 2009 and 31 March 2010 since those dates were prior to the time RSM was initially engaged as reporting accountants for Ratio Knitting; and (ii) owing to the incompleteness of Ratio Knitting's records, RSM would not be able to satisfy themselves as to inventory quantities by other audit procedures. As such, any adjustments to the inventories at 1 April 2007, 31 March 2008, 31 March 2009 and 31 March 2010 might have consequential effects on the results for the years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2010 and net assets as at 31 March 2008, 2009 and 2010.

Considering the Accountants' Report, in particular the inventory balances which are extracted from the statutory financial statements of Ratio Knitting for each of the three years ended 31 March 2010 which have been audited (without qualifications) by another certified public accountants registered in Hong Kong in accordance with Hong Kong Financial Reporting Standards, the Directors are of the opinion that the Accountants' Report, though being qualified by RSM with respect to the inventory balances, can provide the Shareholders and investors an acceptable basis to consider the financial information of the Ratio Knitting Group.

L. REASONS FOR AND BENEFIT OF THE ACQUISITION

The Group is currently principally engaged in the manufacture and sale of ceramic blanks and ferrules as well as the provision of advertising and media services. While the Company continues to run its main business in the manufacture and sale of ceramic blanks and ferrules, as stated in the third quarter report of the Company, the Company is actively exploring business opportunities in direct mailing and e-commerce. During the year, the Company has entered into various strategic cooperation arrangements to strengthen its online-shopping and advertising businesses. As reported in various press articles in the past few months, the Group is currently operating 6 online-shopping websites including www.babybamboo.net and www.monsters.net.cn, etc., and has set up an Internet sales centre in Shenzhen with a sale force of over 60 staff to provide one-stop-shop business-to-customer services such as web-site management, online-shopping and customer services, for over 30 brands with products covering beauty products, fashions and electronic audio and visual products. The Group also established its online group buying business that operates in Hong Kong with a sales and marketing team of over 25 staff. The acquisition of the Target Group, which possesses particularly its strengths in the manufacturing of high-margin fashionable swimwear and related garment products together with the holding of the recognized trademark "Angevil", is considered as complementary and reinforcement to the Group's existing e-commerce operations. As a result of the Acquisition, it is expected that the garment products manufactured by the Target Group will serve as a secured source of women's fashion products with remarkable profit margins for the Group's online-shopping operations. Given the fast growing economic conditions of the PRC and the increasing number of female online shoppers which would create growing demand for women's fashions (including swimwear and underwear) on the online markets, the Board considers the Acquisition representing another strategic opportunity to the Group to further strengthen its existing e-commerce business.

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

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

M. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

As mentioned in the section headed "Reasons for and benefits of the Acquisition". Reasons for and benefits of the Acquisition" above, the Board considers the Acquisition representing another strategic opportunity to the Group to further strengthen its existing e-commerce business. Upon Completion, the Target Group, which possesses particularly its strengths in the manufacturing of high-margin fashionable swimwear and related garment products together with the holding of the recognized trademark "Angevil", will serve as a secured source of women's fashion products with remarkable profit margins for the Group's online-shopping operations. The Group will assist the Target Group in launching and promoting the sales of fashionable swimwear, female underwear and other garment products via its online shopping platforms, which operated in both Hong Kong and the PRC. Given that the high economic growth rate, as well as the rapid urbanization in the PRC, the Company is optimistic about the prospect of its e-commerce business.

Moreover, the Company will keep on exploring business opportunities in direct mailing and e-commence, especially those are in line with the Group's business strategies and can complement the Group's exiting operations. The Directors believe that the Group's direct mailing and e-commerce business will bring fruitful return and create additional values to its shareholders in the coming years.

N. SHAREHOLDING STRUCTURE

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

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

Notes:

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

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

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

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

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

O. GEM LISTING RULES IMPLICATIONS

Based on the relevant percentage ratios calculations under the GEM Listing Rules, the entering into of the Sale and Purchase Agreement constitutes a very substantial acquisition of the Company and is therefore subject to reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules. The proposed Increase in Authorised Share Capital is also subject to the approval of the Shareholders at the EGM. No Shareholder has a material interest in the Sale and Purchase Agreement and the proposed Increase in Authorised Share Capital and therefore no Shareholder is required to abstain from voting of the resolutions to approve the Acquisition and the proposed Increase in Authorised Share Capital.

P. THE PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK$500,000,000 divided into 10,000,000,000 Shares, of which 2,038,055,819 Shares have been issued. To facilitate the issue of the Convertible Preference Shares by the Company upon Completion, the Board proposes to increase the authorised share capital of the Company from HK$500,000,000 divided into 10,000,000,000 Shares of HK$0.05 each to HK$1,000,000,000 by the creation of an additional 4,000,000,000 Shares and 2,000,000,000 Convertible Preference Shares. An ordinary resolution will be sought at the EGM to approve the Increase in Authorised Share Capital and the reclassification of the increased authorised capital of the Company into 14,000,000,000 Shares and 2,000,000,000 Convertible Preference Shares.

The proposed Increase in Authorised Share Capital is conditional upon passing of an ordinary resolution by the Shareholders at the EGM.

Q. EGM

A notice convening the EGM is set out on pages N-1 to N-4 of this circular. All resolutions to be proposed at the EGM will be voted on by poll.

A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are advised to complete the form of proxy and return it to the Company's branch share registrar, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the EGM. The completion and delivery of a form of proxy will not preclude you from attending and voting at the meeting in person.

R. RECOMMENDATION

The Directors, including the independent non-executive Directors, consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Preference Shares, the Promissory Notes and the Consideration Shares) are on normal commercial terms, fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions in respect of the Acquisition and the Increase in Authorised Share Capital.

S. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices of this circular.

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

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited statement of financial position together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the year ended 31 December 2009 has been set out in page 38 to page 132 of the annual report 2009 of the Company which was posted on 26 March 2010 on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the annual report 2009:

http://www.hkexnews.hk/listedco/listconews/gem/20100326/GLN20100326041.pdf

The audited consolidated financial statements of the Group for the year ended 31 December 2008 has been set out in page 39 to page 132 of the annual report 2008 of the Company which was posted on 26 March 2009 on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the annual report 2008:

http://www.hkexnews.hk/listedco/listconews/gem/20090326/GLN20090326032.pdf

The audited consolidated financial statements of the Group for the year ended 31 December 2007 has also been set out in the comparative column page 39 to page 132 of the annual report 2008 of the Company. Please refer to quick link to the annual report 2008 as above for more details.

2. UNAUDITED INTERIM FINANCIAL INFORMATION OF THE GROUP

The unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2010 has been set out in page 4 to page 18 the interim report 2010 of the Company posted on 13 August 2010 on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the interim report 2010:

http://www.hkexnews.hk/listedco/listconews/gem/20100813/GLN20100813069.pdf

3. INDEBTEDNESS

As at the close of business on 31 January 2011, being the latest practicable date for the purpose of ascertaining the indebtedness of the Enlarged Group prior to the printing of this circular, the Enlarged Group had total outstanding borrowings of approximately HK$22,400,000, comprising promissory notes of approximately HK$12,400,000 and a loan from Win Today Limited of approximately HK$10,000,000.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 31 January 2011, the Enlarged Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

4. WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Group, including the internally generated funds, and the available banking facilities, the Group has, in the absence of unforeseeable circumstances, sufficient working capital for its present requirement for the next twelve months from the date of this circular.

5. MATERIAL ADVERSER CHANGE

As at the Latest Practical Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited financial statements of the Company were made up.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

Set out below is the management discussion and analysis of the Group for the three years ended 31 December 2007, 2008 and 2009 and the six months period ended 30 June 2010.

For the year ended 31 December 2007

Financial review

For the year ended 31 December 2007, the Group recorded a total turnover of approximately HK$52,612,000 representing an increase of approximately 71% from approximately HK$30,685,000 for the year ended 31 December 2006. A gross profit of approximately HK$20,494,000 was recorded by the Group for the year ended 31 December 2007. The profit attributable to shareholders was approximately HK$182,000.

Operations

During the year under review, the Group has taken effective measures to control its operating costs. This is the objective of the Group to adopt stringent cost control and maintain a thin but effective overhead structure. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated growth of production capacity in the foreseeable future.

Liquidity and financial resources

As at 31 December 2007, the Group had total assets of approximately HK$142,324,000. At the balance sheet date, the Group had unsecured convertible bonds of approximately HK$24,859,000. The Group has a current ratio of approximately 1.37 comparing to that of 1.62 as at 31 December 2006. As at 31 December 2007, the Group had short-term borrowing of approximately HK$1.7 million and the gearing ratio of 48% was calculated at by dividing total debt by the total assets (31 December 2006: 42%).

Foreign exchange exposure

The business activities of the Group are not exposed to material fluctuations in exchange rates except the operation through its subsidiary in Shenzhen, PRC which is subject to fluctuation in exchange rates between Renminbi and Hong Kong dollars.

Capital structure

As at 31 December 2007 and 2006, the Company's outstanding issued shares were 723,087,310 ordinary shares of HK$0.01 each. There was no change in the capital structure of the Company during the year under review.

Significant investments

The Group did not have any significant investments as at 31 December 2007.

Material acquisitions and disposals of subsidiaries

The Group did not have any material acquisitions or disposals of subsidiaries or affiliated companies for the year ended 31 December 2007.

Employees

As at 31 December 2007, the Group had 315 full time employees compared with that of 236 in 2006. The staff costs, including directors' remuneration, were approximately HK$8,446,000 (2006: HK$4,357,000). The Group offers a comprehensive remuneration package and benefits to its full time employees in compliance with the regulations in Hong Kong and the PRC respectively, including medical scheme, provident fund or retirement fund.

Contingent liabilities

As at 31 December 2007, the Group did not have any material contingent liabilities or charges laid against its assets.

Prospects

The Company has successfully established contacts with several well-known telecommunication equipments manufacturers and was appointed as the priority supplier to them and has entered in of Memorandum of Understandings with them for the supply of various products of the Group with a total indicative annual amount of approximately HK$10 million in the coming twelve months.

Fund raising

The Company entered into of a share subscription agreement with a subscriber in September 2007 and a placing agreement with a placing agent simultaneously. In October 2007, the Company entered into a second placing agreement with the placing agent. In December 2007, the Company announced the rights issue to existing shareholders. Completion of the share subscription agreement, the placing agreements and the rights issue are conditional upon, amongst other, a proposal for the resumption of trading in shares of the Company on the Stock Exchange having been approved and accepted by the Stock Exchange to be viable. Details please refer to the announcement of the Company dated 24 September 2007, 26 October 2007, 18 December 2007, 27 February 2008 and a circular dated 29 February 2008 respectively. All ordinary resolutions proposed for approving subscription shares, placings shares, rights shares were duly passed by the shareholders, all by way of poll at the extra-ordinary general meeting held on 18 March 2008. Details please refer to the announcement of the Company dated 18 March 2008.

For the year ended 31 December 2008

Financial review

For the year ended 31 December 2008, the Group recorded a total turnover of approximately HK$78,644,000 representing an increase of approximately 49% from approximately HK$52,612,000 for the year ended 31 December 2007. A gross profit of approximately HK$19,020,000 was recorded by the Group for the year ended 31 December 2008. The loss attributable to shareholders was approximately HK$24,038,000.

Operations

During the year under review, the Group has taken effective measures to control its operating costs. This is the objective of the Group to adopt stringent cost control and maintain a thin but effective overhead structure. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated growth of production capacity in the foreseeable future.

The Board announced that on 30 April 2008, the Company entered into various CB Redemption Agreements with the respective Bondholders which are supplemental to the Convertible Bonds and the Bonds Supplemental Agreements respectively. Under the CB Redemption Agreements, the Company and the respective Bondholders agreed that the Company shall early redeem at the Redemption Consideration the Convertible Bonds on the date of Completion, by way of (i) cash as to HK$15,000,000 in aggregate and (ii) issuing in favour of two Bondholders, the Promissory Notes as to HK$12,400,000 in aggregate, on the date of Completion.

Particulars of the Convertible Bonds had been set out in the Company's announcement dated 26 June 2002, the circular dated 16 July 2002, the circular dated 29 February 2008 and the circular dated 26 May 2008 respectively.

Liquidity and financial resources

As at 31 December 2008, the Group had total assets of approximately HK$166,730,000. At the balance sheet date, the Group had a sound financial position with cash and bank balances of approximately HK$26,298,000 and had promissory notes of approximately HK$12,400,000. The Group has a current ratio of approximately 2.13 comparing to that of 1.40 as at 31 December 2007. As at 31 December 2008, the Group's gearing ratio of 32% was calculated at by dividing total debt by the total assets (31 December 2007: 46%).

Foreign exchange exposure

The business activities of the Group are not exposed to material fluctuations in exchange rates except the operation through its subsidiary in Shenzhen, PRC which is subject to fluctuation in exchange rates between Renminbi and Hong Kong dollars.

Capital structure

As at 31 December 2007, the Company's outstanding issued shares were 723,087,310 ordinary shares of HK$0.01 each. During the year under review, 5,983,087,310 ordinary shares of HK$0.01 each were issued. As at 31 December 2008, the Company's outstanding issued shares were 6,706,174,620.

Significant investments

The Group did not have any significant investments as at 31 December 2008.

Material acquisitions and disposals of subsidiaries

The Group did not have any material acquisitions or disposals of subsidiaries or affiliated companies for the year ended 31 December 2008.

Employees and remuneration policy

As at 31 December 2008, the Group had 501 full time employees compared with that of 315 in 2007. The staff costs, including directors' remuneration, were approximately HK$16,739,000 (2007: HK$8,446,000). The Group offers a comprehensive remuneration package and benefits to its full time employees in compliance with the regulations in Hong Kong and the PRC respectively, including medical scheme, provident fund or retirement fund. In addition, the Group adopts a share option scheme for eligible employees (including directors) to provide incentives to participants for their contributions and continuing efforts to promote the interests of the Group.

Contingent liabilities

As at 31 December 2008, the Group did not have any material contingent liabilities or charges laid against its assets.

Prospects

The Company will continue to focus and deepen its main business in manufacturing and trading of ceramic ferrule, fiber optic connector, fiber optic adapter and patch code respectively. With Fibra to the home "FTTH" become popular, broadband users demand faster speed, increasing demand for broadband services, and the healthy growth of global market, we are optimistic for the future of this industry.

In the meantime, with the lead of our management team, the Company is actively searching for business opportunities in asset and fund management and e-commerce. Whenever, there are attractive investment opportunities existed, the Company will expand its arm through strategic acquisition and cooperation. We strongly believe both our manufacturing, asset and fund management business and e-commerce will bring fruitful returns and create additional values to our shareholders in the coming years.

For the year ended 31 December 2009

Financial review

For the year ended 31 December 2009, the Group recorded a total turnover of approximately HK$86,117,000 representing an increase of approximately 9.5% from approximately HK$78,644,000 for the year ended 31 December 2008. A gross profit of approximately HK$20,172,000 was recorded by the Group for the year ended 31 December 2009. The loss attributable to shareholders was approximately HK$1,296,000.

Operations

During the year under review, the Group has taken effective measures to control its operating costs. This is the objective of the Group to adopt stringent cost control and maintain a thin but effective overhead structure. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated growth of production capacity in the foreseeable future.

Liquidity and financial resources

As at 31 December 2009, the Group had total assets of approximately HK$353,887,000. At the reporting date, the Group had a sound financial position with cash and bank balances of approximately HK$36,973,000 and had promissory notes of approximately HK$12,400,000. The Group has a current ratio of approximately 1.77 comparing to that of 2.13 as at 31 December 2008. As at 31 December 2009, the Group's gearing ratio of 14% was calculated at by dividing total debt by the total assets (31 December 2008: 32%).

Foreign exchange exposure

The business activities of the Group are not exposed to material fluctuations in exchange rates except the operation through its subsidiary in Shenzhen, PRC which is subject to fluctuation in exchange rates between Renminbi and Hong Kong dollars.

Share consolidation

At an extraordinary general meeting of shareholders of the Company was held on 29 May 2009, an ordinary resolution to implement the share consolidation on the basis that every 5 issued and unissued share of HK$0.01 each and consolidated into one Consolidated Share of HK$0.05 each.

Capital structure

As at 31 December 2008, the Company's outstanding issued shares were 6,706,174,620 ordinary shares of HK$0.01 each. During the year under review, 1,190,000,000 ordinary shares of HK$0.01 each and 281,820,895 ordinary shares of HK$0.05 each were issued, 3,000,000 ordinary shares of HK$0.05 each were repurchased. As at 31 December 2009, the Company's outstanding issued shares were 1,858,055,819.

Significant investments

During the year under review, the Company currently owns 20% of Info-Source Media Limited.

Save as disclosed above, the Group did not have any significant investment as at 31 December 2009.

Material acquisitions and disposals of subsidiaries

During the year under review, the Company currently owns 53% of IKanTV Limited.

Save as disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries as at 31 December 2009.

Employees and remuneration policy

As at 31 December 2009, the Group had 290 full time employees compared with that of 501 in 2008. The staff costs, including directors' remuneration, were approximately HK$15,245,000 (2008: HK$16,739,000). The Group offers a comprehensive remuneration package and benefits to its full time employees in compliance with the regulations in Hong Kong and the PRC respectively, including medical scheme, provident fund or retirement fund. In addition, the Group adopts a share option scheme for eligible employees (including directors) and consultants to provide incentives to participants for their contributions and continuing efforts to promote the interests of the Group.

Contingent liabilities

As at 31 December 2009, the Group did not have any material contingent liabilities or charges laid against its assets.

Prospects

The Company will continue to focus and deepen its main business in manufacturing and trading of ceramic ferrule, fiber optic connector, fiber optic adapter and patch code respectively. With Fibra to the home "FTTH" become popular, broadband users demand faster speed, increasing demand for broadband services, and the healthy growth of global market, we are optimistic for the future of this industry.

In the meantime, with the lead of our management team, the Company is actively searching for business opportunities in asset and fund management and e-commerce. Whenever, there are attractive investment opportunities existed, the Company will expand its arm through strategic acquisition and cooperation. We strongly believe both our manufacturing, asset and fund management business and e-commerce will bring fruitful returns and create additional values to our shareholders in the coming years.

For the six months period ended 30 June 2010

Financial performance

For the six months ended 30 June 2010, the Group's total revenue amounted to approximately HK$43,540,000 (2009: HK$48,658,000) representing a decrease of approximately 11% decrease over the corresponding period in last period. Gross profit was approximately HK$12,081,000 when compared with that of approximately HK$16,600,000 for same period in 2009. The loss attributable to shareholders was approximately HK$2,664,000 when compared with that of approximately HK$217,000 for the same period in 2009.

Operations

During the period under review, the Group has taken effective measures to control its operating costs. This is the objective of the Group to adopt stringent cost control and maintain a thin but effective overhead structure. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated growth of production capacity in the foreseeable future.

Business review and future outlook

Prospects

The Company will continue to run its main business in manufacturing and trading of ceramic ferrule, fiber optic connector, fiber optic adapter and patch code respectively. With Fibra to the home "FTTH" become popular, broadband users demand faster speed, increasing demand for broadband services, and the healthy growth of global market, we are optimistic for the future of this industry.

In the meantime, with the lead of our management team, the Company is actively exploring for business opportunities in direct mailing and e-commerce. Whenever, there are attractive investment opportunities existed, the Company will expand its arm through strategic acquisition and cooperation. We strongly believe both our manufacturing, direct mailing business and e-commerce will bring fruitful returns and create additional values to our shareholders in the coming years.

Liquidity and financial resources

As at 30 June 2010, the Group had total assets of approximately HK$357,422,000 of which bank and cash balances of approximately HK$23,016,000. The Group has a current ratio of approximately 1.66 comparing to that of 2.13 as at 31 December 2009. As at 30 June 2010, the gearing ratio of 16% was calculated by dividing total debt by total assets (as at 31 December 2009 was 14%).

Foreign exchange exposure

The business activities of the Group are not exposed to material fluctuations in exchange rate except the operation through its subsidiary in Shenzhen, PRC which is subject to fluctuation in exchange rates between Renminbi and Hong Kong dollars.

Capital structure

There was no changes in the capital structure of the Group during the period.

Acquisition and disposal of subsidiaries

The Group did not have any material acquisition or disposal of subsidiaries or affiliated companies for the six months ended 30 June 2010.

Employee information

As at 30 June 2010, the Group employed approximately 365 staff (30 June 2009: 501). Total staff costs, including Directors' emoluments were approximately HK$3,242,000 for the six months ended 30 June 2010 as compared with those of approximately HK$2,272,000 for the same period in 2009.

The Group offers a comprehensive remuneration package and benefits to its full time employees in compliance with the regulations in Hong Kong and the PRC respectively, including medical scheme, provident fund or retirement fund. In addition, the Group adopts a share option scheme for eligible employees (including directors) to provide incentives to participants for their contributions and continuing efforts to promote the interests of the Group.

ACCOUNTANTS' REPORT ON THE RATIO KNITTING GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler
中瑞岳華（香港）會計師事務所
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

11 March 2011

The Board of Directors
China Post E-Commerce (Holdings) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Ratio Knitting Factory Limited ("Ratio Knitting") and its subsidiary (hereinafter collectively referred to as the "Ratio Knitting Group") for each of the three years ended 31 March 2010 and the six months ended 30 September 2010 (the "Relevant Periods") for inclusion in the circular dated 11 March 2011 issued by China Post E-Commerce (Holdings) Limited (the "Company") in connection with the proposed acquisition of the entire issued share capital of Easy Time Trading Limited (the "Circular").

Ratio Knitting was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance on 24 September 1982. Ratio Knitting is engaged in investment holding and the manufacture and sale of swimsuits. Ratio Knitting has adopted 31 March as its financial year end date.

As at the date of this report, Ratio Knitting has the following subsidiary:

Name of subsidiary	Place and date of establishment	Registered/ paid up capital	Percentage of ownership interest	Principal activity
江門市雙苑針織製衣有限公司 Jiangmen City Shuangyuan Knitting and Garment Factory Company Limited* ("Jiangmen City Shuangyuan")	The People's Republic of China ("PRC") 29 December 2008	Registered capital of HK$9,500,000/ paid up capital of HK$8,100,000	100%	Inactive

* *For identification purpose only*

Jiangmen City Shuangyuan is a wholly-owned foreign enterprise established in the PRC and has adopted 31 December as its financial year end date as required by the relevant laws in the PRC.

The statutory financial statements of Ratio Knitting for each of the three years ended 31 March 2010 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and were audited by Esmond W.T. Leung & Co., certified public accountants registered in Hong Kong, in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

No audited statutory financial statements of Jiangmen City Shuangyuan have been prepared since establishment as it has not commenced operation as at the date of this report.

For the purpose of this report, the directors of Ratio Knitting have prepared the consolidated financial statements of the Ratio Knitting Group for the Relevant Periods in accordance with HKFRSs (the "Underlying Financial Statements").

The Financial Information has been prepared from the Underlying Financial Statements in accordance with HKFRSs.

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

Except as discussed in the following paragraph, we have performed our independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We did not observe the counting of the physical inventories as of 1 April 2007, 31 March 2008, 31 March 2009 and 31 March 2010, since those dates were prior to the time we were initially engaged as reporting accountants for Ratio Knitting. Owing to the incompleteness of Ratio Knitting's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures. Any adjustments to the inventories at 1 April 2007, 31 March 2008, 31 March 2009 and 31 March 2010 might have consequential effects on the results for the years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2010 and net assets as at 31 March 2008, 2009 and 2010.

For the purpose of this report, the directors of Ratio Knitting have prepared the comparative financial information of the Ratio Knitting Group for the six months ended 30 September 2009 (the "Comparative Financial Information") in accordance with HKFRSs. We have reviewed the Comparative Financial Information in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the HKICPA. A review consists principally of making enquiries of the Ratio Knitting Group's management and applying analytical procedures to the Comparative Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Comparative Financial Information.

On the basis of our review which does not constitute an audit, except for any possible effects of the matter as described above, we are not aware of any material modifications that should be made to the Comparative Financial Information.

In our opinion, except for any possible effects of the inventories as described above, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Ratio Knitting and of the Ratio Knitting Group as at 31 March 2008, 2009 and 2010 and 30 September 2010 and of the Ratio Knitting Group's results and cash flows for the Relevant Periods.

FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 March			Six months ended 30 September	
		2008	**2009**	**2010**	**2009**	**2010**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Turnover	*6*	165,396	130,450	84,047	19,124	34,901
Cost of sales		(111,465)	(81,089)	(56,269)	(19,928)	(18,492)
Gross profit/(loss)		53,931	49,361	27,778	(804)	16,409
Other income	*8*	6,773	3,614	1,528	606	8,259
Selling expenses		(4,014)	(3,020)	(1,271)	(177)	(174)
Administrative expenses		(15,963)	(14,922)	(11,103)	(4,285)	(9,498)
Profit/(loss) before tax		40,727	35,033	16,932	(4,660)	14,996
Income tax expense	*9*	(3,744)	(3,093)	(1,596)	–	(4,260)
Profit/(loss) for the year/period and total comprehensive income for the year/period	*10*	36,983	31,940	15,336	(4,660)	10,736
Attributable to:						
Owners of Ratio Knitting	*11*	36,983	31,940	15,336	(4,660)	10,736

B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 March			At 30 September
		2008	2009	2010	2010
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*13*	8,849	6,630	3,694	1,285
Current assets					
Inventories	*15*	1,073	1,220	2,321	19,830
Trade and bills receivables	*16*	13,018	13,616	11,960	2,770
Prepayments, deposits and other receivables		832	350	262	410
Due from directors	*17&27(c)*	–	8,405	102	–
Pledged bank deposit	*18*	–	–	–	100
Bank and cash balances	*18*	29,218	14,438	22,136	8,096
		44,141	38,029	36,781	31,206
TOTAL ASSETS		52,990	44,659	40,475	32,491
Capital and reserves					
Share capital	*19*	500	500	500	500
Retained profits		36,248	28,188	18,524	7,051
Equity attributable to owners of Ratio Knitting		36,748	28,688	19,024	7,551

		At 31 March			At 30 September
		2008	2009	2010	2010
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities					
Trade payables	*21*	6,062	10,915	6,627	10,839
Accruals and other payables		4,321	606	865	4,476
Dividend payable		–	–	9,500	–
Employee benefit obligations	*22*	5,383	3,832	3,687	4,593
Due to directors	*23&27(c)*	105	–	–	–
Current tax liabilities		371	618	772	5,032
		16,242	15,971	21,451	24,940
TOTAL EQUITY AND LIABILITIES		52,990	44,659	40,475	32,491
Net current assets		27,899	22,058	15,330	6,266
Total assets less current liabilities		36,748	28,688	19,024	7,551

C. STATEMENTS OF FINANCIAL POSITION

		At 31 March			At 30 September
		2008	2009	2010	2010
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*13*	8,849	6,630	3,694	1,285
Investment in a subsidiary	*14*	–	8,100	8,100	8,100
		8,849	14,730	11,794	9,385
Current assets					
Inventories	*15*	1,073	1,220	2,321	19,830
Trade and bills receivables	*16*	13,018	13,616	11,960	2,770
Prepayments, deposits and other receivables		832	350	262	410
Due from directors	*17&27(c)*	–	357	31	–
Pledged bank deposit	*18*	–	–	–	100
Bank and cash balances	*18*	29,218	14,438	22,136	8,096
		44,141	29,981	36,710	31,206
TOTAL ASSETS		52,990	44,711	48,504	40,591
Capital and reserves					
Share capital	*19*	500	500	500	500
Retained profits	*20*	36,248	28,188	18,524	7,051
Total equity		36,748	28,688	19,024	7,551

			At 31 March		At 30 September
		2008	2009	2010	2010
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities					
Trade payables	*21*	6,062	10,915	6,627	10,839
Accruals and other payables		4,321	606	865	12,576
Dividend payable		–	–	9,500	–
Employee benefit obligations	*22*	5,383	3,832	3,687	4,593
Due to directors	*23&27(c)*	105	52	8,029	–
Current tax liabilities		371	618	772	5,032
		16,242	16,023	29,480	33,040
TOTAL EQUITY AND LIABILITIES		52,990	44,711	48,504	40,591
Net current assets/(liabilities)		27,899	13,958	7,230	(1,834)
Total assets less current liabilities		36,748	28,688	19,024	7,551

D. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 April 2007	500	24,265	24,765
Total comprehensive income for the year	–	36,983	36,983
Dividend paid *(note 12)*	–	(25,000)	(25,000)
Changes in equity for the year	–	11,983	11,983
At 31 March 2008 and 1 April 2008	500	36,248	36,748
Total comprehensive income for the year	–	31,940	31,940
Dividend paid *(note 12)*	–	(40,000)	(40,000)
Changes in equity for the year	–	(8,060)	(8,060)
At 31 March 2009 and 1 April 2009	500	28,188	28,688
Total comprehensive income for the year	–	15,336	15,336
Dividend paid *(note 12)*	–	(25,000)	(25,000)
Changes in equity for the year	–	(9,664)	(9,664)
At 31 March 2010 and 1 April 2010	500	18,524	19,024
Total comprehensive income for the period	–	10,736	10,736
Dividend paid *(note 12)*	–	(22,209)	(22,209)
Changes in equity for the period	–	(11,473)	(11,473)
At 30 September 2010	500	7,051	7,551
(Unaudited)			
At 1 April 2009	500	28,188	28,688
Total comprehensive income and changes in equity for the period	–	(4,660)	(4,660)
At 30 September 2009	500	23,528	24,028

E. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 March			Six months ended 30 September	
	2008	2009	2010	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax	40,727	35,033	16,932	(4,660)	14,996
Adjustments for:					
Depreciation	3,670	3,818	2,971	1,486	693
Gain on disposal of property, plant and equipment	–	(155)	(50)	(50)	(7,284)
Interest income	(267)	(17)	(1)	–	–
Operating profit/(loss) before working capital changes	44,130	38,679	19,852	(3,224)	8,405
Decrease/(increase) in inventories	366	(147)	(1,101)	(799)	(17,509)
Decrease/(increase) in trade and bills receivables	865	(598)	1,656	13,644	9,190
(Increase)/decrease in prepayments, deposits and other receivables	(458)	482	88	183	(148)
Changes in balances with directors	(245)	(8,510)	8,303	(447)	102
(Decrease)/increase in trade payables	(4,338)	4,853	(4,288)	(2,417)	4,212
Increase/(decrease) in accruals and other payables	1,726	(3,715)	259	(394)	3,611
Increase in pledged bank deposit	–	–	–	–	(100)
Increase/(decrease) in provision for employee benefit obligations	5,383	(1,551)	(145)	(30)	906
Cash generated in operations	47,429	29,493	24,624	6,516	8,669
Hong Kong Profits Tax paid	(3,707)	(2,846)	(1,442)	–	–
Net cash generated from operating activities	43,722	26,647	23,182	6,516	8,669
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property, plant and equipment	(1,904)	(1,599)	(35)	(35)	(5)
Proceeds from disposal of property, plant and equipment	–	155	50	50	9,005
Interest received	267	17	1	–	–
Net cash (used in)/generated from investing activities	(1,637)	(1,427)	16	15	9,000

	Year ended 31 March			Six months ended 30 September	
	2008	2009	2010	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid to owners of Ratio Knitting	(48,500)	(40,000)	(15,500)	–	(31,709)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(6,415)	(14,780)	7,698	6,531	(14,040)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	35,633	29,218	14,438	14,438	22,136
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	29,218	14,438	22,136	20,969	8,096
ANALYSIS OF CASH AND CASH EQUIVALENTS					
Bank and cash balances	29,218	14,438	22,136	20,969	8,096

F. NOTES TO THE FINANCIAL INFORMATION

1. General information

Ratio Knitting was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance on 24 September 1982. The address of its registered office and principal place of business is Room 703 – 4, 7/F., Goodluck Ind. Centre, 808 Lai Chi Kok Road, Kowloon, Hong Kong.

Ratio Knitting is engaged in investment holding and the manufacture and sale of swimsuits.

In the opinion of the directors of Ratio Knitting, as at 30 September 2010, Easy Time Trading Limited, a company incorporated in the British Virgin Islands, is the immediate holding company; Big Good Management Limited, a company incorporated in the British Virgin Islands, is the ultimate holding company and Mr. Ma Hoi Cheuk is the ultimate controlling party of Ratio Knitting.

2. Adoption of new and revised HKFRSs

During the Relevant Periods, the Ratio Knitting Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting period beginning on 1 April 2010, except for Hong Kong Financial Reporting Standard ("HKFRS") 3 (Revised) "Business Combinations" and Hong Kong Accounting Standard ("HKAS") 27 (Revised) " Consolidated and Separate Financial Statements" which are only adopted for the accounting period beginning on 1 April 2010. The adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) have had no material impact on the Financial Information. The adoption of other new and revised HKFRSs did not result in significant changes to the Ratio Knitting Group's accounting policies, presentation of the Ratio Knitting Group's Financial Information and amounts reported for the current year and prior years. HKFRSs comprise HKFRSs; HKASs; and Interpretations.

The Ratio Knitting Group has not applied the new HKFRSs that have been issued but are not yet effective. The Ratio Knitting Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Significant accounting policies

This Financial Information has been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

This Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors of Ratio Knitting to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to this Financial Information, are disclosed in note 4 to the Financial Information.

The significant accounting policies applied in the preparation of this Financial Information are set out below.

(a) Consolidation

The Financial Information includes the financial statements of Ratio Knitting and its subsidiary made up to 31 March/30 September. A subsidiary is an entity over which the Ratio Knitting Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Ratio Knitting Group has control.

A subsidiary is consolidated from the date on which control is transferred to the Ratio Knitting Group. It is de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Ratio Knitting Group.

In Ratio Knitting's statements of financial position the investment in a subsidiary is stated at cost less allowance for impairment losses. The results of a subsidiary are accounted for by Ratio Knitting on the basis of dividends received and receivable.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Ratio Knitting Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Hong Kong dollars, which is Ratio Knitting's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Ratio Knitting Group entities that have a functional currency different from Ratio Knitting's presentation currency are translated into Ratio Knitting's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

(c) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Ratio Knitting Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land and buildings	2.5% or over the unexpired term of the lease, if shorter
Motor vehicles	20%
Furniture and fixtures	20%
Plant and machinery	20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(d) Operating leases

Leases that do not substantially transfer to the Ratio Knitting Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(f) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when the Ratio Knitting Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Ratio Knitting Group transfers substantially all the risks and rewards of ownership of the assets; or the Ratio Knitting Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

(g) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Ratio Knitting Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(h) Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Ratio Knitting Group's cash management are also included as a component of cash and cash equivalents.

(i) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Ratio Knitting Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(j) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Equity instruments

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

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Ratio Knitting Group and the amount of revenue can be measured reliably.

Revenue from the sales of manufactured goods and sample income is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

(m) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits schemes

Ratio Knitting operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. Ratio Knitting's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of HK$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Ratio Knitting Group in the PRC are members of a central pension scheme operated by the local municipal government. The Ratio Knitting Group is required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Ratio Knitting Group. The only obligation of the Ratio Knitting Group with respect to the central pension scheme is to meet the required contributions under the scheme.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Ratio Knitting Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Ratio Knitting Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in a subsidiary, except where the Ratio Knitting Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Ratio Knitting Group intends to settle its current tax assets and liabilities on a net basis.

(o) Related parties

A party is related to the Ratio Knitting Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Ratio Knitting Group; has an interest in the Ratio Knitting Group that gives it significant influence over the Ratio Knitting Group; or has joint control over the Ratio Knitting Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Ratio Knitting Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Ratio Knitting Group, or of any entity that is a related party of the Ratio Knitting Group.

(p) Impairment of assets

At the end of each reporting period, the Ratio Knitting Group reviews the carrying amounts of its tangible and intangible assets except inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Ratio Knitting Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Ratio Knitting Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(r) Events after the reporting period

Events after the reporting period that provide additional information about the Ratio Knitting Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Financial Information when material.

4. Critical judgements and key estimates

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors of Ratio Knitting have made the following judgements that have the most significant effect on the amounts recognised in the Financial Information (apart from those involving estimations, which are dealt with below).

(a) Split of land and building elements

The Ratio Knitting Group determines that the lease payments cannot be allocated reliably between the land and building elements. Accordingly the entire lease of land and buildings is classified as a finance lease and included under property, plant and equipment.

Key sources of estimation uncertainty

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

(a) Property, plant and equipment and depreciation

The Ratio Knitting Group determines the estimated useful lives, residual values and related depreciation charges for the Ratio Knitting Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Ratio Knitting Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income taxes

The Ratio Knitting Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to serve industry cycles. The Ratio Knitting Group will reassess the estimates by the end of each reporting period.

5. Financial risk management

The Ratio Knitting Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Ratio Knitting Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Ratio Knitting Group's financial performance.

(a) Foreign currency risk

The Ratio Knitting Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi ("RMB"). Accordingly, no sensitivity analysis has been presented. The Ratio Knitting Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Ratio Knitting Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The carrying amount of the bank and cash balances, trade and other receivables and amounts due from directors included in the consolidated statements of financial position represents the Ratio Knitting Group's maximum exposure to credit risk in relation to the Ratio Knitting Group's financial assets.

The Ratio Knitting Group has no significant concentrations of credit risk.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from directors are closely monitored by the directors of Ratio Knitting.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) Liquidity risk

The Ratio Knitting Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. The Ratio Knitting Group's financial liabilities are repayable on demand or within one year.

(d) Interest rate risk

As the Ratio Knitting Group has no significant interest-bearing assets and liabilities, the Ratio Knitting Group's operating cash flows are substantially independent of changes in market interest rates. Accordingly, no sensitivity analysis has been presented.

(e) Categories of financial instruments

		At 31 March		At 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets:				
Loans and receivables (including cash and cash equivalents)	43,041	36,732	34,306	11,356
Financial liabilities:				
Financial liabilities at amortised cost	10,331	11,521	16,992	15,057

(f) Fair values

The carrying amounts of the Ratio Knitting Group's financial assets and financial liabilities as reflected in the consolidated statements of financial position approximate their respective fair values.

6. Turnover

The Ratio Knitting Group's turnover represents the net invoiced value goods sold, after allowances for returns and trade discounts, during the Relevant Periods.

7. Segment information

The Ratio Knitting Group has one single reportable segment which was managed as a single strategic business unit that engaged in the manufacturing and sale of swimsuits. Information reported to the Ratio Knitting Group's chief operating decision maker, for the purpose of resource allocation and assessment performance is focused on the operating results of the Ratio Knitting Group as a whole as the Ratio Knitting Group's resources are integrated and no discrete financial information is available. Accordingly, no segment analysis is presented.

Geographical information:

	Revenue from external customers				
				Six months ended	
	Year ended 31 March			30 September	
	2008	**2009**	**2010**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Hong Kong	15,319	10,924	4,234	280	350
Europe	145,665	116,521	76,148	18,688	33,805
Others	4,412	3,005	3,665	156	746
Consolidated total	165,396	130,450	84,047	19,124	34,901

In presenting the geographical information, revenue is based on the locations of the customers.

	Non-current assets			
				At 30
	At 31 March			**September**
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	3,035	3,449	2,552	517
PRC excluding Hong Kong	5,814	3,181	1,142	768
	8,849	6,630	3,694	1,285

Revenue from major customers:

	Year ended 31 March			Six months ended 30 September	
	2008	**2009**	**2010**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Customer a	17,758	13,493	16,397	4,554	3,716
Customer b	8,410	7,987	6,548	1,708	4,686
Customer c	22,872	12,499	5,745	666	2,075
Customer d	6,621	6,470	4,844	2,736	6,923
Customer e	6,360	9,817	3,068	3,068	–
Customer f	10,877	10,028	2,875	–	7,553

8. Other income

	Year ended 31 March			Six months ended 30 September	
	2008	**2009**	**2010**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Gain on disposal of property, plant and equipment	–	155	50	50	7,284
Interest income	267	17	1	–	–
Net foreign exchange gains	3,748	585	42	179	–
Reversal of provision for employee benefit obligations	–	–	251	–	–
Sample income	1,298	836	536	177	474
Sub-let rental income	26	4	–	–	–
Sundry income	1,434	2,017	648	200	501
	6,773	3,614	1,528	606	8,259

9. Income tax expense

	Year ended 31 March			Six months ended 30 September	
	2008	2009	2010	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Current tax - Hong Kong Profits Tax					
Provision for the year/period	3,674	3,093	1,597	–	1,065
Under/(over)-provision in prior years	70	–	(1)	–	3,195
	3,744	3,093	1,596	–	4,260

Hong Kong Profits Tax is provided at 17.5%, 16.5%, 16.5% and 16.5% on the estimated assessable profit for the years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2010 respectively. No provision for Hong Kong Profits Tax is required for the six months ended 30 September 2009 since the Ratio Knitting Group has no assessable profit for that period.

The reconciliation between the income tax expense and the product of profit/(loss) before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	Year ended 31 March			Six months ended 30 September	
	2008	2009	2010	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit/(loss) before tax	40,727	35,033	16,932	(4,660)	14,996
Applicable Hong Kong Profits Tax rate	17.5%	16.5%	16.5%	16.5%	16.5%
Tax at the applicable Hong Kong Profits Tax rate	7,127	5,780	2,794	(769)	2,474
Tax effect of income that is not taxable	(3,626)	(2,890)	(1,422)	(37)	(2,221)
Tax effect of expenses that are not deductible	78	56	50	427	696
Tax effect of tax losses not recognised	–	–	–	294	–
Tax effect of temporary differences not recognised	120	147	175	85	116
Under/(over)-provision in prior years	70	–	(1)	–	3,195
Tax concession	(25)	–	–	–	–
	3,744	3,093	1,596	–	4,260

No provision for deferred taxation has been made in the Financial Information as the tax effect of temporary differences is immaterial to the Ratio Knitting Group.

10. Profit/(loss) for the year/period

The Ratio Knitting Group's profit/(loss) for the year/period is stated after charging the following:

	Year ended 31 March			Six months ended 30 September	
	2008	2009	2010	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Auditors' remuneration	45	43	43	–	–
Cost of inventories sold	111,465	81,089	56,269	19,928	18,492
Deprecation	3,670	3,818	2,971	1,486	693
Directors' remuneration					
Fees	–	–	–	–	–
Salaries and allowances	2,853	3,747	2,853	906	832
Retirement benefit scheme contributions	60	60	60	30	26
Operating lease charges for land and buildings	1,935	1,935	1,478	737	1,893
Staff costs including directors' remuneration					
Salaries and allowances	20,545	17,036	13,666	4,579	6,369
Retirement benefit scheme contributions	662	774	772	349	2,850
Provision for long service payments	995	560	–	–	–
PRC employee severance compensation	4,388	399	574	–	912

Cost of inventories sold includes depreciation of approximately HK$2,698,000, HK$2,716,000, HK$2,043,000, HK$1,021,000 and HK$374,000 for the years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2009 and 2010, respectively, which are included in the amounts disclosed separately above.

Cost of inventories sold includes operating lease charges of approximately HK$1,672,000, HK$1,689,000, HK$1,247,000, HK$623,000 and HK$1,757,000 for the years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2009 and 2010, respectively, which are included in the amounts disclosed separately above.

Cost of inventories sold includes staff costs of approximately HK$16,299,000, HK$8,630,000, HK$7,443,000, HK$2,347,000 and HK$7,215,000 for the years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2009 and 2010, respectively, which are included in the amounts disclosed separately above.

11. Profit/(loss) for the year/period attributable to owners of Ratio Knitting

The profit/(loss) for the year/period attributable to owners of Ratio Knitting included a profit of approximately HK$36,983,000, a profit of approximately HK$31,940,000, a profit of approximately HK$15,336,000, a loss of approximately HK$4,660,000 and a profit of approximately HK$10,736,000 which have been dealt with in the financial statements of Ratio Knitting for the years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2009 and 2010, respectively.

12. Dividends

	Year ended 31 March			Six months ended 30 September	
	2008	2009	2010	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Interim of:					
HK$50 per ordinary share paid	25,000	–	–	–	–
HK$80 per ordinary share paid	–	40,000	–	–	–
HK$50 per ordinary share paid	–	–	25,000	–	–
HK$44.418 per ordinary share paid	–	–	–	–	22,209

13. Property, plant and equipment

	The Ratio Knitting Group and Ratio Knitting				
	Land and buildings	Furniture and fixtures	Motor vehicles	Plant and machinery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 April 2007	2,025	8,830	2,970	8,823	22,648
Additions	–	256	–	1,648	1,904
At 31 March 2008 and 1 April 2008	2,025	9,086	2,970	10,471	24,552
Additions	–	427	1,172	–	1,599
Disposals	–	–	(485)	–	(485)
At 31 March 2009 and 1 April 2009	2,025	9,513	3,657	10,471	25,666
Additions	–	35	–	–	35
Disposals	–	–	(292)	–	(292)
At 31 March 2010 and 1 April 2010	2,025	9,548	3,365	10,471	25,409
Additions	–	5	–	–	5
Disposals	(2,025)	–	(2,764)	–	(4,789)
At 30 September 2010	–	9,553	601	10,471	20,625
Accumulated depreciation and impairment					
At 1 April 2007	624	5,979	1,275	4,155	12,033
Charge for the year	54	1,125	497	1,994	3,670
At 31 March 2008 and 1 April 2008	678	7,104	1,772	6,149	15,703
Charge for the year	54	1,098	673	1,993	3,818
Disposals	–	–	(485)	–	(485)
At 31 March 2009 and 1 April 2009	732	8,202	1,960	8,142	19,036
Charge for the year	54	865	673	1,379	2,971
Disposals	–	–	(292)	–	(292)
At 31 March 2010 and 1 April 2010	786	9,067	2,341	9,521	21,715
Charge for the period	22	119	242	310	693
Disposals	(808)	–	(2,260)	–	(3,068)
At 30 September 2010	–	9,186	323	9,831	19,340
Carrying amount					
At 31 March 2008	1,347	1,982	1,198	4,322	8,849
At 31 March 2009	1,293	1,311	1,697	2,329	6,630
At 31 March 2010	1,239	481	1,024	950	3,694
At 30 September 2010	–	367	278	640	1,285

14. Investment in a subsidiary

	Ratio Knitting			
		At 31 March		At 30 September
	2008	2009	2010	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investment, at cost	–	8,100	8,100	8,100

15. Inventories

	The Ratio Knitting Group and Ratio Knitting			
		At 31 March		At 30 September
	2008	2009	2010	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	465	540	497	4,975
Work in progress	–	–	–	10,501
Finished goods	608	680	1,824	4,354
	1,073	1,220	2,321	19,830

16. Trade and bills receivables

	The Ratio Knitting Group and Ratio Knitting			
		At 31 March		At 30 September
	2008	2009	2010	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	7,367	10,511	9,176	2,770
Bills receivables	5,651	3,105	2,784	–
	13,018	13,616	11,960	2,770

The Ratio Knitting Group's trading terms with other customers are mainly on credit. The credit terms generally range from 0 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. Ratio Knitting Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors of Ratio Knitting.

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	The Ratio Knitting Group and Ratio Knitting			
	At 31 March			At 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 30 days	5,655	7,618	4,986	2,399
31 to 60 days	1,180	2,252	2,268	8
61 to 90 days	530	640	1,350	320
Over 90 days	2	1	572	43
	7,367	10,511	9,176	2,770

As of 31 March 2008, 2009 and 2010 and 30 September 2010, trade receivables of approximately HK$188,000, HK$31,000, HK$1,700,000 and HK$282,000, respectively, were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	The Ratio Knitting Group and Ratio Knitting			
	At 31 March			At 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
61 to 90 days	186	30	1,128	239
Over 90 days	2	1	572	43
	188	31	1,700	282

The carrying amounts of the Ratio Knitting Group's and Ratio Knitting's trade receivables are denominated in the following currencies:

	At 31 March			At 30 September
	2008	2009	2010	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	658	118	137	235
United States dollars	4,631	8,572	7,630	2,429
Euros	2,078	1,821	1,409	106
	7,367	10,511	9,176	2,770

17. Due from directors

The amounts due from directors are unsecured, interest-free and have no fixed terms of repayment.

Details of the amounts due from directors disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

(a) Mr. Chan Chi Choi

	The Ratio Knitting Group and Ratio Knitting			
	Year ended 31 March			Six months ended 30 September
	2008	2009	2010	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of year/period	–	–	78	31
Balance at end of year/period	–	78	31	–
Maximum amount outstanding during the year/period	–	78	78	31

Mr. Chan Chi Choi resigned as a director of Ratio Knitting on 16 September 2010.

(b) Mr. Chan Sum

	The Ratio Knitting Group			
	Year ended 31 March			Six months ended 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of year/period	–	–	8,048	71
Balance at end of year/period	–	8,048	71	–
Maximum amount outstanding during the year/period	–	8,048	8,048	71

Mr. Chan Sum resigned as a director of Ratio Knitting on 16 September 2010.

(c) Ms. Chan Yuen Ling

	The Ratio Knitting Group and Ratio Knitting			
	Year ended 31 March			Six months ended 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of year/period	–	–	96	–
Balance at end of year/period	–	96	–	–
Maximum amount outstanding during the year/period	–	96	96	–

Ms. Chan Yuen Ling resigned as a director of Ratio Knitting on 16 September 2010.

(d) Ms. Chan Yuen Ping

	The Ratio Knitting Group and Ratio Knitting			
	Year ended 31 March			Six months ended 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of year/period	–	–	90	–
Balance at end of year/period	–	90	–	–
Maximum amount outstanding during the year/period	–	90	90	–

Ms. Chan Yuen Ping resigned as a director of Ratio Knitting on 16 September 2010.

(e) Ms. Lee Kwan Yee

	The Ratio Knitting Group and Ratio Knitting			
	Year ended 31 March			Six months ended 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of year/period	–	–	93	–
Balance at end of year/period	–	93	–	–
Maximum amount outstanding during the year/period	–	93	93	–

Ms. Lee Kwan Yee resigned as a director of Ratio Knitting on 16 September 2010.

18. Pledged bank deposit and bank and cash balances

The Ratio Knitting Group's and Ratio Knitting's pledged bank deposit represented a deposit pledged to a bank to secure general banking facilities granted to Ratio Knitting.

As at 30 September 2010, the bank and cash balances of the Ratio Knitting Group and Ratio Knitting denominated in RMB amounted to approximately HK$1,733,000. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

19. Share capital

	At 31 March			At 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Authorised, issued and fully paid:				
500,000 ordinary shares of HK$1 each	500	500	500	500

The Ratio Knitting Group's objectives when managing capital are to safeguard the Ratio Knitting Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Ratio Knitting Group currently does not have any specific policies and processes for managing capital.

20. Retained profits

	Year ended 31 March			Six months ended 30 September	
	2008	**2009**	**2010**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of year/period	24,265	36,248	28,188	28,188	18,524
Dividend paid	(25,000)	(40,000)	(25,000)	–	(22,209)
Profit/(loss) for the year/period	36,983	31,940	15,336	(4,660)	10,736
At end of year/period	36,248	28,188	18,524	23,528	7,051

21. Trade payables

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	The Ratio Knitting Group and Ratio Knitting			
		At 31 March		At 30 September
	2008	2009	2010	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 30 days	4,476	3,428	4,857	8,533
31 to 60 days	1,452	6,816	1,415	2,003
61 to 90 days	33	295	133	57
Over 90 days	101	376	222	246
	6,062	10,915	6,627	10,839

The carrying amounts of the Ratio Knitting Group's and Ratio Knitting's trade payables are denominated in the following currencies:

		At 31 March		At 30 September
	2008	2009	2010	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	2,870	6,076	4,012	9,709
United States dollars	2,826	4,464	2,539	718
Euros	251	–	–	207
RMB	115	375	76	205
	6,062	10,915	6,627	10,839

22. Employee benefit obligations

	Provision for long service payments *(note (a))* *HK$'000*	PRC employee severance compensation *(note (b))* *HK$'000*	Total *HK$'000*
At 1 April 2007	–	–	–
Addition provisions	995	4,388	5,383
At 31 March 2008 and 1 April 2008	995	4,388	5,383
Addition provisions	560	399	959
Provisions used	(433)	(2,077)	(2,510)
At 31 March 2009 and 1 April 2009	1,122	2,710	3,832
Addition provisions	–	574	574
Unused provisions reversed	(251)	–	(251)
Provisions used	–	(468)	(468)
At 31 March 2010 and 1 April 2010	871	2,816	3,687
Addition provisions	–	912	912
Provisions used	–	(6)	(6)
At 30 September 2010	871	3,722	4,593

Notes:

(a) Provision for long service payments

Under the Hong Kong Employment Ordinance, Ratio Knitting is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of services with Ratio Knitting. The amount payable is dependent on the employees' final salary and years of services, and is reduced by entitlements accrued under Ratio Knitting's retirement plan that are attributable to contributions made by Ratio Knitting. Ratio Knitting does not set aside any assets to fund any remaining obligations.

(b) PRC employee severance compensation

Pursuant to the new PRC Labour Contract Law which became effective on 1 January 2008, Ratio Knitting is required to pay the severance compensation to its employees if the employment contract expires and is not renewed unless Ratio Knitting has offered the employment contract on the same terms and conditions but the offer is rejected by the employee.

Under the Labour Contract Law, the severance compensation is calculated based on one month's salary for each year of employment completed by the employee and is capped at 12 months' salary or 12 times 300% of the average monthly salary of the previous year at the place where the employer is located, whichever is lower. At the end of each reporting period, Ratio Knitting has made the provision for severance compensation for the existing employees in the PRC.

23. Due to directors

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

24. Contingent liabilities

At 31 March 2008, 2009 and 2010 and 30 September 2010 the Ratio Knitting Group had no significant contingent liabilities.

25. Capital commitments

At 31 March 2008, 2009 and 2010 and 30 September 2010 the Ratio Knitting Group had no significant capital commitments.

Ratio Knitting's capital commitments at the end of each reporting period are as follows:

	At 31 March			At 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital contribution to a subsidiary	–	1,400	1,400	1,400

26. Lease commitments

At 31 March 2008, 2009 and 2010 and 30 September 2010 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 March			At 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,772	1,459	1,858	2,612
In the second to fifth years inclusive	5,651	4,647	3,528	3,483
After five years	3,689	3,122	2,388	2,020
	11,112	9,228	7,774	8,115

27. Related party transactions

(a) Key management personnel compensation

The key management personnel of the Ratio Knitting Group are the directors of Ratio Knitting. Details of the remuneration paid to the directors of Ratio Knitting during the Relevant Periods are set out in note 10 to the Financial Information.

(b) Transactions with related parties

The Ratio Knitting Group had the following transactions with its related parties during the Relevant Periods:

	Year ended 31 March			Six months ended 30 September	
	2008	**2009**	**2010**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Rental expense paid to a director	83	94	95	48	48

The director, Ms. Lee Kwan Yee, resigned on 16 September 2010.

(c) Balances with related parties

The Ratio Knitting Group

	At 31 March			At 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Due from directors	–	8,405	102	–
Due to directors	105	–	–	–

Ratio Knitting

	At 31 March			At 30 September
	2008	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Due from directors	–	357	31	–
Due to directors	105	52	8,029	–

28. Subsequent events

The following event took place subsequent to 30 September 2010:

Yofiel International Group Limited ("Yofiel"), a wholly owned subsidiary of Ratio Knitting, was incorporated in Hong Kong with limited liability on 20 October 2010. Yofiel has obtained a license for the use of the trademark "安格薇" or "Angevil" to carry out both Internet sales and retail shop sales of underwear and swimwear products in the PRC.

29. Subsequent financial statements

No audited financial statements have been prepared by Ratio Knitting or its subsidiary in respect of any period subsequent to 30 September 2010.

Yours faithfully,

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition (the "Acquisition") of the entire issued share capital of Easy Time Trading Limited (the "Target Company") might have affected the financial information of the Group.

The unaudited pro forma consolidated income statement and consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2009 are prepared based on the audited consolidated income statement and consolidated statement of cash flows of the Group for the year ended 31 December 2009 as extracted from the annual report of the Company for the year ended 31 December 2009 and the audited consolidated income statement and consolidated statement of cash flows of Ratio Knitting Factory Limited ("Ratio Knitting"), a subsidiary of the Target Company, and its subsidiary (hereinafter collectively referred to as the "Ratio Knitting Group") for the year ended 31 March 2010 as extracted from the accountants' report set out in Appendix II to this circular as if the Acquisition had been completed on 1 January 2009.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2010 is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2010 as extracted from the interim report of the Company for the six months ended 30 June 2010 and the audited consolidated statement of financial position of the Ratio Knitting Group as at 30 September 2010 as extracted from the accountants' report set out in Appendix II to this circular as if the Acquisition had been completed on 30 June 2010.

The unaudited pro forma financial information of the Enlarged Group is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the unaudited pro forma financial information of the Enlarged Group, it may not give a true picture of the actual financial position, results of operation or cash flows of the Enlarged Group that would have been attained had the Acquisition actually occurred on the dates indicated herein. Furthermore, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results of operation or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I, the financial information of the Ratio Knitting Group as set out in Appendix II and other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

	The Group	The Ratio Knitting Group	Sub-total	Pro forma adjustments	Notes	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Turnover	86,117	84,047	170,164			170,164
Cost of sales	(65,945)	(56,269)	(122,214)			(122,214)
Gross profit	20,172	27,778	47,950			47,950
Other income	2,235	1,528	3,763			3,763
Impairment of goodwill	–	–	–	(328,810)	*(x)*	(328,810)
Selling expenses	–	(1,271)	(1,271)			(1,271)
Administrative expenses	(10,121)	(11,103)	(21,224)			(21,224)
Other operating expenses	(12,038)	–	(12,038)			(12,038)
Profit/(loss) from operations	248	16,932	17,180			(311,630)
Finance costs	(502)	–	(502)			(502)
(Loss)/profit before tax	(254)	16,932	16,678			(312,132)
Income tax expense	(2,107)	(1,596)	(3,703)			(3,703)
(Loss)/profit for the year	(2,361)	15,336	12,975			(315,835)
Attributable to:						
				(153)	*(i)*	
Owners of the Company	(1,296)	15,336	14,040	(328,810)	*(x)*	(314,923)
Non-controlling interests	(1,065)	–	(1,065)	153	*(i)*	(912)
	(2,361)	15,336	12,975			(315,835)

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP AS AT 30 JUNE 2010

	The Group	The Ratio Knitting Group	Sub-total	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Non-current assets						
Property, plant and equipment	75,091	1,285	76,376			76,376
				722,525	*(vii)*	
Goodwill	128,973	–	128,973	(328,810)	*(x)*	522,688
Available-for-sale financial assets	57,600	–	57,600			57,600
	261,664	1,285	262,949			656,664
Current assets						
Inventories	26,255	19,830	46,085			46,085
Trade and bills receivables	37,388	2,770	40,158			40,158
Prepayments, deposits and other receivables	9,099	410	9,509			9,509
Pledged bank deposit	–	100	100			100
Bank and cash balances	23,016	8,096	31,112			31,112
	95,758	31,206	126,964			126,964
TOTAL ASSETS	357,422	32,491	389,913			783,628
Capital and reserves						
				26,667	*(ii)*	
Share capital	327,486	500	327,986	(500)	*(iii)*	354,153
Convertible preference shares	–	–	–	520,000	*(iv)*	520,000
Other reserves	31,871	–	31,871	133,333	*(ii)*	165,204
(Accumulated losses)/				(7,051)	*(iii)*	
retained profits	(56,708)	7,051	(49,657)	(328,810)	*(x)*	(385,518)
Equity attributable to owners of the Company	302,649	7,551	310,200			653,839
Non-controlling interests	(5,149)	–	(5,149)	76	*(v)*	(5,073)
Total equity	297,500	7,551	305,051			648,766

	The Group	The Ratio Knitting Group	Sub-total	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Non-current liabilities						
Deferred tax liabilities	2,317	–	2,317			2,317
Promissory notes	–	–	–	50,000	*(vi)*	50,000
	2,317	–	2,317			52,317
Current liabilities						
Borrowings – current portion	12,400	–	12,400			12,400
Trade payables	13,912	10,839	24,751			24,751
Accruals and other payables	17,227	4,476	21,703			21,703
Employee benefit obligations	–	4,593	4,593			4,593
Current tax liabilities	14,066	5,032	19,098			19,098
	57,605	24,940	82,545			82,545
Total liabilities	59,922	24,940	84,862			134,862
Total equity and liabilities	357,422	32,491	389,913			783,628
Net current assets	38,153	6,266	44,419			44,419
Total assets less current liabilities	299,817	7,551	307,368			701,083

D. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

	The Group	The Ratio Knitting Group	Sub-total	Pro forma adjustments	Notes	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
(Loss)/profit before tax	(254)	16,932	16,678	(328,810)	*(x)*	(312,132)
Adjustments for:						
Finance costs	502	–	502			502
Interest income	(843)	(1)	(844)			(844)
Impairment of goodwill	–	–	–	328,810	*(x)*	328,810
Depreciation and amortisation	222	2,971	3,193			3,193
Gain on disposal of property, plant and equipment	–	(50)	(50)			(50)
Gain on disposal of available-for-sale financial assets	(1,035)	–	(1,035)			(1,035)
Interest on promissory notes written back	(248)	–	(248)			(248)
Operating profit before working capital changes	(1,656)	19,852	18,196			18,196
Decrease/(increase) in inventories	3,435	(1,101)	2,334			2,334
(Increase)/decrease in trade and other receivables	(2,292)	1,744	(548)	8,303	*(viii)*	7,755
Changes in balances with directors	–	8,303	8,303	(8,303)	*(viii)*	–
Increase/(decrease) in trade and other payables	1,706	(4,029)	(2,323)			(2,323)
Decrease in provision for employee benefit obligations	–	(145)	(145)			(145)
Cash generated from operating activities	1,193	24,624	25,817			25,817
Hong Kong Profits Tax paid	–	(1,442)	(1,442)			(1,442)
Net cash generated from operating activities	1,193	23,182	24,375			24,375

	The Group *HK$'000*	The Ratio Knitting Group *HK$'000*	Sub-total *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	The Enlarged Group *HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisition of subsidiaries net of cash acquired	(8,185)	–	(8,185)	14,438	*(ix)*	6,253
Purchases of property, plant and equipment	(67)	(35)	(102)			(102)
Purchases of available-for-sale financial assets	(95,428)	–	(95,428)			(95,428)
Proceeds from disposal of property, plant and equipment	–	50	50			50
Proceeds from disposal of available-for sale financial assets	85,000	–	85,000			85,000
Increase in amount due from a related company	(252)	–	(252)			(252)
Interest received	843	1	844			844
Net cash (used in)/generated from investing activities	(18,089)	16	(18,073)			(3,635)
CASH FLOWS FROM FINANCING ACTIVITIES						
Issue of shares	39,299	–	39,299			39,299
Decrease in amount due to a related company	(4,376)	–	(4,376)			(4,376)
Repayment of loan	(7,099)	–	(7,099)			(7,099)
Interest paid	(253)	–	(253)			(253)
Dividend paid to owners of Ratio Knitting	–	(15,500)	(15,500)			(15,500)
Net cash generated from/(used in) financing activities	27,571	(15,500)	12,071			12,071
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,675	7,698	18,373			32,811
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	26,298	14,438	40,736	(14,438)	*(ix)*	26,298
CASH AND CASH EQUIVALENTS AT END OF YEAR	36,973	22,136	59,109			59,109
Represented by:						
Bank and cash balances	36,973	22,136	59,109			59,109

E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(i) The adjustment represents profit for the year of the Ratio Knitting Group attributable to a non-controlling shareholder holding 1% of the issued share capital of Ratio Knitting.

(ii) The adjustments represent the allotment and issuance of a total of 533,333,333 new shares of the Company of HK$0.05 each ("Consideration Shares"), at HK$0.300 per share, representing the closing price of the shares of the Company as at 30 June 2010 and the fair value of the Consideration Shares in accordance with Hong Kong Financial Reporting Standard 3 "Business Combinations", as if the Acquisition had taken place on 30 June 2010.

(iii) The adjustments represent the elimination of owners' equity of the Ratio Knitting Group as if the Acquisition had taken place on 30 June 2010.

(iv) The adjustment represents the allotment and issuance of a total of 1,733,333,333 convertible preference shares ("Convertible Preference Shares"). Each Convertible Preference Share is convertible into one share of the Company at a conversion price of HK$0.150 each. For the purpose of compiling this unaudited pro forma consolidated statement of financial position, the closing price of the shares of the Company as at 30 June 2010, is assumed to be the fair value of each Convertible Preference Share, as if the Acquisition had taken place on 30 June 2010.

(v) The adjustment represents owners' equity of the Ratio Knitting Group attributable to a non-controlling shareholder holding 1% of the issued share capital of Ratio Knitting.

(vi) The adjustment represents the issuance of promissory notes ("Promissory Notes"). The Promissory Notes shall be repayable in one lump sum on the fifth anniversary of the date of the issue of the Promissory Notes at no interest. For the purpose of compiling this unaudited pro forma consolidated statement of financial position, the principal amount of the Promissory Notes is assumed to be the fair value of the Promissory Notes as at 30 June 2010, as if the Acquisition had taken place on 30 June 2010.

(vii) The adjustment represents recognition of goodwill as a result of the Acquisition as if the Acquisition had taken place on 30 June 2010.

Goodwill represents the excess of the consideration for the Acquisition over the Group's share of the fair value of the identifiable net assets of the Ratio Knitting Group. The consideration for the Acquisition of HK$390,000,000 (the "Consideration") will be satisfied by the Company in the following manner:

– as to a sum of HK$260,000,000 by the way of issuance of the Convertible Preference Shares at an issue price of HK$0.150 per Convertible Preference Share;

– as to a sum of HK$50,000,000 (subject to adjustment) by the way of issuance of the Promissory Notes; and

– as to the balance of HK$80,000,000 (subject to adjustment) by the way of issuance of the Consideration Shares at an issue price of HK$0.150 per share upon completion of certain conditions stipulated in the sale and purchase agreement.

The Consideration is subject to adjustment, if any, as referred to in the paragraphs headed "Tax Liability Adjudication" and "Profit Guarantee" in this circular. For the purpose of compiling this unaudited pro forma consolidated statement of financial position, it is assumed that, after considering all pertinent factors in determining whether information obtained after the date of Acquisition should result in an adjustment to the Consideration, the directors determine that any adjustments to the Consideration would be minimal.

For the purpose of compiling this unaudited pro forma consolidated statement of financial position, the audited net asset value of the Ratio Knitting Group as at 30 September 2010 is assumed to be the fair value of the identifiable net assets.

Since the fair value of the assets and liabilities of the Ratio Knitting Group as at the date of completion of the Acquisition may be different from their fair values used in the preparation of the unaudited pro forma financial information presented above, the actual goodwill arising from the Acquisition, if any, may be different from the estimated amount as presented above.

(viii) The adjustments represent reclassifications of accounts of the Ratio Knitting Group in conformity with the presentation of the Group.

(ix) The adjustments represent the net cash inflow arising from the Acquisition. As at 1 April 2010, the Ratio Knitting Group had cash and cash equivalents of approximately HK$22,136,000 which were assumed to be acquired by the Group upon the Acquisition.

(x) An impairment test in respect of the goodwill resulting from the Acquisition conducted in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" issued by the Hong Kong Institute of Certified Public Accountants involves the determination of the recoverable amount of the cash-generating unit to which the goodwill has been allocated, being the higher of the cash-generating unit's fair value less costs to sell and its value in use. For the purpose of the preparation of the unaudited pro forma financial information, the directors estimate that the fair value less costs to sell of the Ratio Knitting Group is approximately HK$395,000,000, and an impairment of approximately HK$328,810,000 is recognised during the year ended 31 December 2009 and as at 30 June 2010. The reporting accountants concur with the directors' assessment of impairment of goodwill in the unaudited pro forma financial information. In addition, the directors will adopt consistent accounting policies and principal assumptions (as used in the unaudited pro forma financial information), including the principal assumptions of the valuation of the Ratio Knitting Group, to assess the impairment of the Enlarged Group's goodwill in future.

Since the fair value of the Convertible Preference Shares, Promissory Notes and Consideration Shares as at the date of completion of the Acquisition will be used to calculate the actual impairment of the Enlarged Group's goodwill which may be different from their fair values used in the preparation of the unaudited pro forma financial information presented above, the actual goodwill arising from the Acquisition, if any, may be different from the estimated amount as presented above.

Furthermore, the fair value less costs to sell of the Ratio Knitting Group after completion of the Acquisition may be different from the estimated amount used in the preparation of the unaudited pro forma financial information presented above, the actual impairment of goodwill, if any, may be different from the estimated amount as presented above.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

11 March 2011

The Board of Directors
China Post E-Commerce (Holdings) Limited

Dear Sirs,

We report on the unaudited pro forma financial information of China Post E-Commerce (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of Easy Time Trading Limited might have affected the financial information of the Group presented, for inclusion in Appendix III to the circular of the Company dated 11 March 2011 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages III – 1 to III – 9 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibilities solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 " Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

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

- the financial position of the Group as at 30 June 2010 or any future date; or

- the results and cash flows of the Group for the year ended 31 December 2009 or any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

Set out below is a summary of the terms of Convertible Preference Shares:

1. INTERPRETATION

In these Terms, unless the context otherwise requires, the following expressions which apply exclusively to these Terms shall have the following meanings:

(A) "Articles" means the articles of association for the time being adopted by the Company and as amended from time to time;

"Acquisition Agreement" means the agreement dated 6 January 2011 entered into among Big Good Management Limited as vendor, the Company as purchaser and Mr. Ma Hoi Cheuk as guarantor in relation to the acquisition of the entire issued share capital in Easy Time Trading Limited;

"Certificate" means a certificate issued by the Company in the name of the Convertible Preference Shareholder in respect of his holding of one or more Convertible Preference Shares;

"Closing Price" means the closing price per Ordinary Share on the Relevant Stock Exchange, as published by the Relevant Stock Exchange for one or more board lots of Ordinary Shares or, in the absence of any such published closing price, the last published closing price;

"Conversion Date" means, subject to paragraph 5(G), 12:00 noon on the Business Day immediately following the date of the surrender of the relevant Certificate and delivery of the Conversion Notice therefor accompanied by the documents referred to in paragraph 5(B);

"Conversion Notice" means a notice, in such form as the Directors may from time to time specify, stating that a Convertible Preference Shareholder wishes to exercise the Conversion Right in respect of one or more Convertible Preference Shares;

"Conversion Number" means, in relation to any Convertible Preference Share, such number of Ordinary Shares as may, upon exercise of the Conversion Right, be converted at the Conversion Price in force on the relevant Conversion Date;

"Conversion Period" means, in respect of any Convertible Preference Share, any time commencing from 3:00 p.m. (Hong Kong time) on the Business Day immediately after the date of issue of such Conversion Preference Share and up to 4:00 p.m. (Hong Kong time) on the date of all Convertible Preference Shares being converted or purchased in full (or such earlier date as may be required under the Statutes);

"Conversion Price" means the price at which each Ordinary Share will be allotted and issued upon an exercise of the Conversion Right, initially being HK$0.15, subject to any adjustment in accordance with these Terms;

"Conversion Right" means the right, subject to the provisions of the Terms, the Statutes and to any other applicable fiscal or other laws or regulations to convert at any time during the Conversion Period any Convertible Preference Share at the Conversion Price;

"Conversion Share(s)" means Ordinary Share(s) to be issued upon an exercise of the Conversion Rights;

"Convertible Preference Shares" means the convertible preference shares of par value HK$0.15 each in the share capital of the Company, the rights of which are set out in these Terms;

"Convertible Preference Shareholder" means a person or persons who is or are registered in the Preference Register as a holder or jointholders of Convertible Preference Shares;

"Converting Shareholder" means a Convertible Preference Shareholder all or some of whose Convertible Preference Shares are being or have been converted;

"Dealing Day" means a day on which the Relevant Stock Exchange is open for business and on which trading in the Ordinary Shares or other relevant securities is not suspended;

"Directors" means the board of directors of the Company or the directors present at a meeting of directors at which a quorum is present;

"Dividend" means any dividend payable or distribution made pursuant to paragraph 2;

"Equity Share Capital" means issued share capital excluding any part thereof which neither as respect dividends nor as respects capital carries any right to participate beyond a specified amount in a distribution;

"Hong Kong" means the Hong Kong Special Administrative Region of the People's Republic of China;

"Hong Kong Stock Exchange" means The Stock Exchange of Hong Kong Limited;

"Issue Date" means, in respect of any Convertible Preference Share, the date on which the Convertible Preference Share was allotted and issued;

"Listing Rules" means the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;

"Notional Value" means the price at which each Convertible Preference Share was initially issued, being HK$0.15;

"Ordinary Shares" means fully paid ordinary shares of HK$0.05 each (or of such other nominal value in which such ordinary shares are for the time being denominated following any consolidation or sub-division which gives rise to an adjustment to the Conversion Price in accordance with paragraph 7) in the Company of the class listed on the Hong Kong Stock Exchange or, where the context so requires, shares resulting from the re-designation or re-classification of all the Ordinary Shares outstanding, provided that if all of the Ordinary Shares are replaced by other securities (all of which are identical), the expression "Ordinary Shares" shall thereafter refer to those other securities;

"outstanding" means in relation to the Convertible Preference Shares, all the Convertible Preference Shares issued other than:

(A) those in respect of which Conversion Rights have been exercised and which have been cancelled; or

(B) those which have been purchased and cancelled as provided in paragraph 9;

"Preference Register" means the register of Convertible Preference Shareholders required to be maintained by the Company pursuant to paragraph 17(B);

"Record Date" means the date and time by which a subscriber or transferee of securities of the class in question would have to be registered in order to participate in the relevant distribution or rights;

"Registrar's Office" means the office of Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, the Hong Kong branch share registrars of the Company, or such office of such person or such other person as the Company may from time to time designate;

"Relevant Convertible Preference Shares" means a Convertible Preference Share which is to be converted pursuant to a Conversion Notice;

"Relevant Jurisdiction" means a jurisdiction in which the Company or any of its subsidiaries is incorporated, carries on business or holds any assets;

"Relevant Stock Exchange" means (A) the stock exchange on which the Ordinary Shares are at the relevant time principally traded, as determined by the Company, or (B) if, for the purposes of paragraph 7, the consideration at which any shares or securities are or are to be issued or transferred, or the relevant exercise, exchange or subscription price, if any, for such shares or securities, is to be fixed by reference to the price of such shares or securities on a particular stock exchange, that stock exchange;

"Statutes" means the Companies Law, Chapter 22 (Laws 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended from time to time, and every other act of the legislature of Hong Kong or the Cayman Islands for the time being in force applying to or affecting the Company and/or its memorandum of association and/or the Articles;

"Terms" means the terms of issue, rights and privileges of the Convertible Preference Shares and the restrictions to which they are subject as set out herein and as may be amended from time to time; and

(B) In these Terms, references to:

"distribution" include references to any dividend or other distribution (including a distribution in specie) or capitalisation issue;

"paragraphs" are references to the paragraphs of these Terms;

"property" include references to shares, securities, cash and other assets or rights of any nature;

"dates" and "times" are to dates and times in Hong Kong; and

2. INCOME, DIVIDEND AND OTHER DISTRIBUTIONS

Each outstanding Convertible Preference Share shall confer, in case of any dividend or distribution being declared and paid by the Company to holders of the Ordinary Shares, on the holder thereof the same entitlement to dividend or distribution as holder of the number of Ordinary Shares into which such Convertible Preference Share may be converted upon exercise of Conversion Rights attached thereto.

3. CAPITAL

On a return of capital on liquidation or otherwise (but not on conversion or purchase) the Convertible Preference Shares shall confer on the Convertible Preference Shareholders the right to be paid, in priority to any return of assets in respect of any other class of shares in the capital of the Company, pari passu as between themselves an amount equal to the aggregate Notional Value of the Convertible Preference Shares. The Convertible Preference Shares shall not confer on the holders thereof any further or other right to participate in the assets of the Company.

4. RANKING

The Company shall not (unless such sanction has been given by the Convertible Preference Shareholders as would be required for a variation of the special rights attaching thereto or unless otherwise provided in the Articles) create or issue any shares ranking as regards order in the participation in the profits of the Company or in the assets of the Company on a winding up or otherwise in priority to the Convertible Preference Shares, but the Company may create or issue, without obtaining the consent of the Convertible Preference Shareholders, shares ranking pari passu in all respects (including as to class) with the Convertible Preference Shares and the existing and further Ordinary Shares.

5. CONVERSION

(A) Each Convertible Preference Share shall confer on the holder thereof the Conversion Right.

(B) Subject to paragraph 5(D), any Convertible Preference Shareholder may exercise the Conversion Right in respect of one or more Convertible Preference Shares held by him at any time during the Conversion Period subject to the provisions of the Statutes and any other applicable fiscal and other laws and regulations by delivering a duly signed and completed Conversion Notice to the Registrar's Office accompanied by:

(1) the Certificates in respect of the Relevant Convertible Preference Shares and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right (or, if such Certificates have been lost or destroyed, such evidence of title and such indemnity as the Directors may reasonably require); and

(2) banker's cashier orders or similar instruments payable to the Company in respect of all taxes and stamp, issue and registration duties (if any) arising on conversion.

A Conversion Notice shall not be effective if:

(i) it is not accompanied by the Certificates in respect of the Relevant Convertible Preference Shares and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right (or, if such Certificates have been lost or destroyed, such evidence of title and such indemnity as the Directors may reasonably require);

(ii) it is not accompanied by banker's cashier orders or similar instruments payable to the Company in respect of all taxes and stamp, issue and registration duties (if any) arising on conversion; and

(iii) it does not include a declaration and confirmation that the beneficial owner of the Relevant Convertible Preference Shares, and of the Conversion Shares, is not a resident or national of any foreign jurisdiction where the exercise of the Conversion Rights attached to the Relevant Convertible Preference Shares is prohibited by any law or regulation of that jurisdiction or where compliance with such laws or regulations would require filing or other action by the Company; or that delivery of the Relevant Convertible Preference Shares or Conversion Shares will not result in a breach of any exchange control, fiscal or other laws or regulations for the time being applicable.

(C) The number of Conversion Shares to be issued on each conversion shall be determined by dividing the aggregate Notional Value of the Relevant Convertible Preference Shares by the Conversion Price applicable on the Conversion Date provided that no fraction of an Ordinary Share arising on conversion shall be allotted and all fractional entitlements shall be dealt with in accordance with paragraph 12.

(D) Conversion of the Convertible Preference Shares shall be effected in such manner as the Directors shall subject to these Terms, the Articles, the Statutes and to any other applicable law and regulations, from time to time determine provided that no conversion shall take place if (1) to do so would result in the Conversion Shares being issued at a price below their nominal value as at the applicable Conversion Date; (2) to the extent that following such exercise, the relevant Convertible Preference Shareholder and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 20 per cent. or more of the entire issued Ordinary Shares; or (3) if immediately after such conversion, the public float of the Shares falls below the minimum public float requirements stipulated under the Listing Rules or as required by the Hong Kong Stock Exchange. For the avoidance of doubt, the Company shall have the right not to issue any Conversion Share(s) to such holder(s) of the Convertible Preference Share(s) exercising the Conversion Rights in any of the circumstances specified in (1), (2) or (3) above in this paragraph 5(D).

Without prejudice to the generality of the foregoing, any Convertible Preference Share may be converted by repurchase on the relevant Conversion Date out of:

(a) the capital paid up on the Relevant Convertible Preference Shares; or

(b) the funds available for dividend or distribution of the Company; or

(c) the proceeds of a fresh issue of shares made for the purpose; or

(d) any combination of (a), (b) and (c), and in the case of any premium payable on such a repurchase, out of the Company's funds available for dividend or distribution or the Company's share premium account or a combination of the foregoing. Any repurchase out of capital must be made on the basis that the Company shall be able to pay its debt as it falls due in the ordinary course of business. Each Conversion Notice shall be deemed to authorise and instruct the Directors to retain any repurchase moneys otherwise payable to the Converting Shareholder and, in respect of the Relevant Convertible Preference Share, to apply the same in the subscription on such Converting Shareholder's behalf of the Conversion Shares (subject to the treatment of fractions described in paragraph 12) and, to the extent that conversion shall be effected out of the proceeds of a fresh issue of shares, where appropriate, each Conversion Notice shall be deemed:

(i) to appoint any person selected by the Directors as such Converting Shareholder's agent with authority to apply an amount equal to the repurchase moneys in respect of the Relevant Convertible Preference Shares in subscribing on such Converting Shareholder's behalf for the Conversion Shares (subject to the treatment of fractions described in paragraph 12); and

(ii) to authorise and instruct the Directors following the allotment of such Conversion Shares to pay the said repurchase moneys to such agent who shall be entitled to retain the same for his own benefit without being accountable therefor to such Converting Shareholder;

provided that if the Converting Shareholder has a registered address in any territory where in the absence of a registration statement or any other special formalities the allotment or delivery of any Conversion Shares would or might in the opinion of the Directors be unlawful or impracticable under the laws of such territory or any Relevant Jurisdiction, the Company shall as soon as reasonably practicable after the receipt of the relevant Conversion Notice allot the Conversion Number of the Ordinary Shares to the Converting Shareholder or to one or more third parties selected by the Company and on behalf of the Converting Shareholder sell the same to one or more third parties selected by the Company for the best consideration then reasonably obtainable by the Company. As soon as reasonably practicable following any such allotment and sale, the Company shall pay the Converting Shareholder an amount equal to the consideration received by it.

(E) Each Convertible Preference Shareholder irrevocably authorises the Company to effect the transactions required by paragraph 5(D) and for this purpose the Company may appoint any person to execute transfers, renunciations or other documents on behalf of the Convertible Preference Shareholder and generally may make all arrangements which appear to it to be necessary or appropriate in connection therewith.

(F) The Company shall allot and issue the Conversion Shares or, as the case may be, send the amount to which he is entitled pursuant to paragraph 5(D) to the Converting Shareholder and shall procure that certificates in respect of the Conversion Shares, together with a new Certificate for any unconverted Convertible Preference Shares comprised in the Certificate(s) surrendered by the Converting Shareholder, are issued as soon as practicable and in any event not later than 14 days after the relevant Conversion Date.

(G) If and whenever any conversion takes place after the occurrence of any event falling within any sub-provision of paragraph 7(A) but before the amount of the relevant adjustment to the Conversion Price (if any) shall have been calculated in accordance with the provisions of paragraph 7(A), the Conversion Date shall be deemed to fall on the Business Day after the date the adjustment made to the Conversion Price in respect of the relevant event has become effective.

(H) In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company at the same time it despatches such notice to each member of the Company shall give notice thereof to all Convertible Preference Shareholders (together with a notice of the existence of the provisions of this paragraph 5(H)) and thereupon, each Convertible Preference Shareholder shall be entitled to exercise all or any of his Conversion Rights at any time not later than two Business Days prior to the date of the general meeting of the Company by providing the Company a Conversion Notice duly completed and executed together with the Certificates, cashier orders and, where appropriate, other items listed in paragraphs 5(B)(1) and (2) whereupon the Company shall, subject to the Statutes, as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the general meeting, allot the Conversion Shares to the Relevant Convertible Preference Shareholders credited as fully paid. There shall not be any issuance of Conversion Shares and/or alteration in the status of the members of the Company after the commencement of winding up unless permitted under the Statutes.

6. CONVERSION SHARES

The Conversion Shares shall, save as provided for in these provisions, rank pari passu in all respects with the Ordinary Shares in issue at the time the Conversion Shares are issued, and shall, subject to the proviso of this paragraph 6, entitle the holders thereof to all distributions paid or made on the Ordinary Shares by reference to a Record Date falling after the Conversion Date, provided that if a Record Date after the Conversion Date is in respect of any distribution in respect of any financial period of the Company ended prior to such Conversion Date, the holders of the Conversion Shares will not be entitled to such distribution.

7. ADJUSTMENTS TO THE CONVERSION PRICE

(A) Subject as hereinafter provided, the Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of sub-paragraphs (1) to (7) inclusive of this paragraph 7, it shall fall within the first of the applicable paragraphs to the exclusion of the remaining paragraphs:

(1) If and whenever there shall be an alteration in the nominal value of the Ordinary Shares by reason of any consolidation or sub-division, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by a fraction of which the numerator shall be the nominal value of one Ordinary Share immediately after such alteration and of which the denominator shall be the nominal value of one Ordinary Share immediately before such alteration and such adjustment shall become effective on the date on which such alteration takes effect.

(2) If and whenever the Company shall capitalise any amount of profits or reserves (including any share premium account or contributed surplus account) and apply the same in paying up in full the nominal value of any Ordinary Shares (other than any Ordinary Shares credited as fully paid out of distributable profits or reserves (including any share premium account or contributed surplus account) and issued in lieu of the whole or any part of a cash dividend or specie distribution which the holders of the Ordinary Shares concerned would or could otherwise have received and which would not have constituted a Capital Distribution (as defined in paragraph 7(B))), the Conversion Price in force

immediately prior to the Record Date therefor shall be adjusted by a fraction of which the numerator shall be the aggregate nominal amount of the issued Ordinary Shares immediately before such issue and of which the denominator shall be the aggregate nominal amount of the issued Ordinary Shares immediately after such issue. Such adjustment shall be effective immediately after the Record Date for such issue.

(3) If and whenever the Company shall make any Capital Distribution, the Conversion Price in force immediately prior to such distribution shall be adjusted by multiplying it by the following fraction:

$(K - L) \div K$

where:

K is the Closing Price of one Ordinary Share on the Dealing Day immediately preceding the date on which the Capital Distribution is announced or (failing any such announcement), the Dealing Day immediately preceding the Record Date for the Capital Distribution;

L is the fair market value on the date of such announcement or (as the case may require) the Dealing Day immediately preceding the Record Date for the Capital Distribution, as determined in good faith by an approved merchant bank (selected at the option of the Company) or the Auditors of the portion of the Capital Distribution which is attributable to one Ordinary Share.

Provided that:

(a) if in the opinion of the relevant approved merchant bank or the Auditors (as the case may be), the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed accordingly) the amount of the said Closing Price which should properly be attributed to the value of the Capital Distribution; and

(b) the provisions of this sub-paragraph (3) shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend nor to a purchase by the Company of its own Ordinary Shares in accordance with the provisions of the Statutes.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the Record Date for the Capital Distribution.

(4) If and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Ordinary Shares, at a price which is less than 80 per cent. of the market price (as defined in paragraph 7(B)) at the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$(K + L) \div M$

where:

K is the number of Ordinary Shares in issue immediately before the date of such announcement;

L is the number of Ordinary Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Ordinary Shares comprised therein would purchase at such market price; and

M is the number of Ordinary Shares in issue immediately before the date of such announcement plus the aggregate number of Ordinary Shares offered for subscription or comprised in the options or warrants.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the Record Date for the offer or grant.

(5) (a) If and whenever the Company or any other company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Ordinary Shares and the total Effective Consideration (as defined below) per Ordinary Share initially receivable for such securities is less than 80 per cent. of the price which is the market price at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by the following fraction:

$$(K + L) \div (K + M)$$

where:

K is the number of Ordinary Shares in issue immediately before the date of the issue;

L is the number of Ordinary Shares which the total Effective Consideration receivable for the securities issued would purchase at such market price; and

M is the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day immediately preceding whichever is the earlier of the date on which the issue is announced and the date on which the issuer determines the conversion or exchange rate or subscription price.

(b) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (a) of this sub-paragraph (5) are modified so that the total Effective Consideration per Ordinary Share initially receivable for such securities shall be less than 80 per cent. of the price which is the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$(K + L) \div (K + M)$

where:

K is the number of Ordinary Shares in issue immediately before the date of such modification;

L is the number of Ordinary Shares which the total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at the market price at the date of the announcement of such proposal; and

M is the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms.

For the purposes of this sub-paragraph (5), the "total Effective Consideration" receivable for the securities issued shall be deemed to be the consideration receivable by the issuer for the issue of any such securities plus the additional minimum consideration (if any) to be received by the issuer and/or the Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of such subscription rights and the Effective Consideration per Ordinary Share initially receivable for such securities shall be such aggregate consideration divided by the number of Ordinary Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

(6) If and whenever the Company shall issue wholly for cash any Shares (other than Shares issued to employees, including directors of the Company or any of its Subsidiaries, or their personal representatives, pursuant to an employee share scheme) at a price per Ordinary Share which is less than 80 per cent. of the market price current at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Ordinary Shares in issue immediately before the date of such announcement plus the number of Ordinary Shares which the aggregate amount payable for the issue would purchase at such market price and the denominator is the number of Ordinary Shares in issue immediately before the date of such announcement plus the number of Ordinary Shares so issued. Such adjustment shall become effective on the date of the issue.

(7) If and whenever the Company shall purchase any Shares or securities issued by the Company or any of its subsidiaries which are convertible into or exchangeable for Ordinary Shares or any rights to acquire Ordinary Shares (other than on the Relevant Stock Exchange) and the Directors of the Company cancel such Ordinary Shares, securities convertible into or exchangeable for Shares or rights to acquire Ordinary Shares, the Directors of the Company may if they consider it appropriate make an adjustment to the Conversion Price, provided that the Directors of the Company shall have appointed an approved merchant bank to consider whether, for any reason whatever as a result of such purchases, an adjustment should be made to the Conversion Price fairly and appropriately to reflect the relative interests of the persons affected by such

purchases by the Company and, if such approved merchant bank shall consider in its opinion that it is appropriate to make an adjustment to the Conversion Price, the Directors of the Company shall make an adjustment to the Conversion Price in such manner as such approved merchant bank shall certify to be, in its opinion, appropriate. Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day immediately preceding the date on which such purchases by the Company are made.

(B) For the purposes of paragraph 7(A):

"announcement" shall include the releases of an announcement to the press or the delivery or transmission by telephone, telex or otherwise of an announcement to the Relevant Stock Exchange and "date of announcement" shall mean the date on which the announcement is first so released, delivered or transmitted;

"Capital Distribution" means any distribution paid or made by the Company on Ordinary Shares to the extent that the amount of such distribution exceeds the amount calculated by reference to P - D where:

P is the aggregate of the net consolidated profits less the aggregate of the net consolidated losses of the Company and its subsidiaries after taxation and minority interests but before extraordinary items in respect of the financial period ending on 31 December 2010 and each subsequent financial period in respect of which an audited consolidated profit and loss account of the Company and its subsidiaries (or, if it has at the relevant time no subsidiaries, an audited profit and loss account of the Company) has been published, as shown by such profit and loss account(s);

D is the aggregate amount of all distributions then already paid or made by the Company on Ordinary Shares in respect of any and all financial periods ending on or after 31 December 2010; provided that if such amount is greater than "P", then "D" shall be deemed to be equal to "P";

"market price" means the average of the closing prices of one Ordinary Share on the Relevant Stock Exchange in respect of dealings in board lots for the five consecutive Dealing Days ending on the last Dealing Day preceding the day on or as of which the market price is to be ascertained.

(C) The provisions of sub-paragraphs (2), (3), (4), (5) and (6) of paragraph 7(A) shall not apply to:

(1) an issue of fully paid Ordinary Shares upon the exercise of any conversion rights attached to securities convertible into Ordinary Shares or upon exercise of any rights (including the Conversion Rights attaching to the Convertible Preference Shares) to acquire Ordinary Shares or any other convertible securities convertible into Ordinary Shares issued pursuant to or under the Acquisition Agreement;

(2) an issue of Ordinary Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or rights to acquire, Ordinary Shares to directors or employees of the Company or any of its subsidiaries or their personal representatives pursuant to an employee share scheme;

(3) an issue by the Company of Ordinary Shares or by the Company or any other subsidiary of the Company of securities wholly or partly convertible into or rights to acquire Ordinary Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;

(4) an issue of Ordinary Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Ordinary Shares so issued is capitalised and the market value of such Ordinary Shares is not more than 110 per cent. of the amount of the dividend which holders of the Ordinary Shares could elect to or would otherwise receive in cash, for which purpose the "market value" of an Ordinary Share shall mean the average of the closing prices on the Relevant Stock Exchange for five (or more) consecutive Dealing Days falling within the period of one month ending on the last day on which holders of Ordinary Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash; or

(5) the issue of the Convertible Preference Shares.

(D) Any adjustment to the Conversion Price shall be made to the nearest one cent (Hong Kong currency) so that any amount under half a cent (Hong Kong currency) shall be rounded down and any amount of half a cent (Hong Kong currency) or more shall be rounded up and in no event shall any adjustment (otherwise than upon the consolidation of Ordinary Shares into Ordinary Shares of a larger nominal amount) involve an increase in the Conversion Price. In addition to any determination which may be made by the Directors of the Company every adjustment to the Conversion Price shall be certified either (at the option of the Company) by the Auditors or by an approved merchant bank.

(E) Notwithstanding anything contained in these Terms, no adjustment shall be made to the Conversion Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions of paragraph 7 would be less than one cent and any adjustment that would otherwise then be required to be made shall not be carried forward. Further, no adjustment shall be made if the result of which is to reduce the Convertible Price to below the par value of an Ordinary Share.

(F) If the Company or any of its subsidiaries shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire, Ordinary Shares, the Company shall appoint an approved merchant bank to consider whether any adjustment to the Conversion Price is appropriate (and if such approved merchant bank shall certify that any such adjustment is appropriate the Conversion Price shall be adjusted accordingly).

(G) Notwithstanding the provisions of paragraph 7(A), in any circumstances where the Directors of the Company shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions, the Directors of the Company may appoint an approved merchant bank to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved merchant bank shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including without limitation making an adjustment calculated on a different basis) as shall be certified by such approved merchant bank to be in its opinion appropriate.

(H) Whenever the Conversion Price is adjusted as herein provided, the Company shall give notice to the Convertible Preference Shareholders that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof) and shall at all times thereafter so long as any of the Conversion Rights remains exercisable make available for inspection at the principal place of business for the time being of the Company and the Registrar's Office prior to all the Convertible Preference Shares being converted or purchased in full a signed copy of the said certificate of the Auditors or (as the case may be) of the relevant approved merchant bank and a certificate signed by a Director of the Company setting out the brief particulars of the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof.

8. UNDERTAKINGS

So long as any Convertible Preference Share remains capable of being converted into Ordinary Shares:

(1) the Company will use its best endeavours (a) to maintain a listing for all the issued Ordinary Shares on the Hong Kong Stock Exchange, (b) if and when the issued Convertible Preference Shares are listed on the Hong Kong Stock Exchange to maintain such listing for all the issued Convertible Preference Shares on the Hong Kong Stock Exchange and (c) to obtain and maintain a listing on the Hong Kong Stock Exchange for all Conversion Shares issued on the exercise of the Conversion Rights;

(2) the Company will send to each Convertible Preference Shareholder, by way of information, one copy of every circular, notice or other document sent to any other shareholders in the Company in their capacity as shareholders, at the same time as it is sent to such other shareholders;

(3) the Company shall procure that there shall be sufficient authorised but unissued share capital available for the purposes of satisfying the requirements of any Conversion Notice as may be given and the terms of any other securities for the time being in issue which are convertible into or have the right to subscribe for shares in the Company;

(4) the Company shall not, without the consent of the Convertible Preference Shareholders as a class (obtained in the manner provided in the Articles and these Terms) or unless otherwise permitted pursuant to these provisions:

(a) modify, vary, alter or abrogate the rights attaching to the Ordinary Shares as a class, which (for the avoidance of doubt) shall not be deemed to be so modified, varied, altered or abrogated by the creation or issue of any shares or securities contemplated by these provisions; or

(b) change the date to which its annual accounts are made up from 31 December; or

(c) effect any payment in respect of the Convertible Preference Shares otherwise than as provided for in these provisions; or

(d) issue any shares (other than Ordinary Shares or shares ranking pari passu in all respects (including as to class) with the Convertible Preference Shares) constituting Equity Share Capital of the Company;

(5) except in such manner as may be permitted by the Articles or the Statutes, the Company shall not reduce its share capital or any uncalled liability in respect thereof or any share premium account;

(6) if during such time when there are any Convertible Preference Shares outstanding an offer is made to the holders of Ordinary Shares (or all such shareholders other than the offeror and/or any company controlled by the offeror and/or any persons acting in concert with the offeror) to acquire the whole or any part of the Ordinary Shares and the Company becomes aware that the rights to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such companies or persons aforesaid, the Company shall (subject to any restrictions under any applicable laws, regulations, codes and/or rules) give notice to all Convertible Preference Shareholders of such vesting or future vesting within 7 days of its becoming so aware;.

9. PURCHASE

Subject to the Statutes and agreement of the relevant Convertible Preference Shareholders, the Company or any of its subsidiaries may at any time purchase any of the Convertible Preference Shares (by means available to all Convertible Preference Shareholders alike) at any price to be mutually agreed between the Company or such subsidiary of the Company and such Convertible Preference Shareholder(s). Any Convertible Preference Shares so purchased or otherwise acquired by the Company or any of its subsidiaries may not be resold and in case such Convertible Preference Shares are purchased or otherwise acquired by the Company, such Convertible Preference Shares are to be cancelled, provided that nothing in this paragraph shall prohibit transfers of Convertible Preference Shares from any subsidiary of the Company to any other subsidiary of the Company, subject to the Statutes.

10. MEETINGS

(A) The Convertible Preference Shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, a general meeting of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or a resolution is to be proposed which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights or privileges of the Convertible Preference Shareholders, in which event the Convertible Preference Shares shall confer on the holder thereof the right to receive notice of, and to attend and vote at, that general meeting, save that such holders may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding up or the resolution which if passed would (subject to any consents required for such purpose being obtained) so vary or abrogate the rights and privileges of the Convertible Preference Shareholders.

(B) If the Convertible Preference Shareholders are entitled to vote on any resolution, then at the relevant general meeting or separate general meeting of the Convertible Preference Shareholders, all resolutions put to the vote at the general meeting must be decided by way of poll and every Convertible Preference Shareholder who is present in person or by proxy or attorney or (being a corporation) by a duly authorised representative shall have one vote for each Conversion Share which would have been issued to him/it had he/it exercised the Conversion Right 48 hours preceding the date of such general meeting or separate general meeting of the Convertible Preference Shareholders.

11. PAYMENTS

(A) Unless any other manner of payment is agreed between the Company and any Convertible Preference Shareholder, payment of Dividends, other cash distributions and moneys due on conversion or any repurchase permitted by these Terms to such Convertible Preference Shareholder shall be made by the Company posting a cheque in Hong Kong dollars (or in the case of payments which are to be made in another currency, such other currency) addressed to that Convertible Preference Shareholder at his registered address appearing on the Preference Register as at the relevant Record Date and at his own risk.

(B) Subject to paragraph 11(A), where any property (including Conversion Shares and Certificates in respect of them) is to be allotted, transferred or delivered to any Convertible Preference Shareholder the Company may make such arrangements with regard to such allotment, transfer or delivery as it may deem appropriate and in particular, without limitation, may appoint any person on behalf of that Convertible Preference Shareholder to execute any transfers, renunciations or other document and may make arrangements for the delivery of any document or property to that Convertible Preference Shareholder at his/its risk. All share certificates and other documents of title to which any person is entitled shall be posted to him/it by the Company addressed to him/it at his/its registered address appearing on the Preference Register as at the relevant Record Date or, if none, the date of posting and at his/its risk.

(C) All payments or distributions with respect to Convertible Preference Shares held jointly by two or more persons shall be paid or made to whichever of such persons is named first in the Preference Register and the making of any payment or distribution in accordance with this sub-provision shall discharge the liability of the Company in respect thereof.

12. FRACTIONS

No fraction of an Ordinary Share arising on conversion shall be allotted to the holder of the Relevant Convertible Preference Share(s) otherwise entitled thereto but such fractions will, when practicable, be aggregated and sold and the net proceeds of sale will then be distributed pro rata among such holders unless in respect of any holding of Relevant Convertible Preference Shares the amount to be so distributed would be less than HK$100, in which case such amount will not be so distributed but will be retained for the benefit of the Company. Unless otherwise agreed between the Company and a Converting Shareholder, if more than one Convertible Preference Share shall fall to be converted pursuant to any one Conversion Notice, the number of Ordinary Shares to be issued upon conversion shall be calculated on the basis of the aggregate Notional Values of the Relevant Convertible Preference Shares. For the purpose of implementing the provisions of this paragraph 12, the Company may appoint some person to execute transfers, renunciations or other documents on behalf of persons entitled to any such fraction and generally may make all arrangements which appear to it to be necessary or appropriate for the settlement and disposal of fractional entitlements.

13. TAXATION

(A) All payments of amounts equal to the Notional Value, nominal amounts, premium (if any) and Dividends in respect of Convertible Preference Shares shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Cayman Islands or Hong Kong or any authority therein or thereof (other than any withholding or deduction on account of any income tax, capital gains tax or other tax or duties of a similar nature) unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, subject to the Company having sufficient profits available for distribution, the Company shall pay such additional amounts as may be necessary in order that the net amounts received by the Convertible Preference Shareholders after such withholding or deduction shall equal the respective amounts of the Notional Value, premium (if any) and Dividend which would have been receivable in respect of the Convertible Preference Shares in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Convertible Preference Shareholder:

(1) who is liable to such taxes, duties, assessments or governmental charges in respect of any Convertible Preference Share by reason of such holder having some connection with The Cayman Islands or Hong Kong, as the case may be, other than by virtue of being a Convertible Preference Shareholder; or

(2) receiving such payment in The Cayman Islands or Hong Kong, as the case may be, and who would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other similar claim for exemption to the The Cayman Islands or Hong Kong tax authority, as the case may be, but fails to do so.

(B) To the extent that the Company shall have insufficient profits available for distribution in order to permit it to pay all or any of such additional amounts as aforesaid the amount of any shortfall shall be treated for all purposes as arrears of Dividend only in circumstances when the Company has sufficient profits or distributable reserves available for distribution.

14. RESTRICTED HOLDERS

No Convertible Preference Shares may be allotted and issued to any individual or entity who shall as a result become, and no Conversion Rights may be exercised by any Convertible Preference Shareholder who is, a Restricted Holder (as hereinafter defined). The exercise of any Conversion Rights by a Convertible Preference Shareholder shall constitute a confirmation, representation and warranty by the Converting Shareholder to the Company that such Converting Shareholder is not a Restricted Holder and that all necessary governmental, regulatory or other consents or approvals and all formalities have been obtained and observed by such Converting Shareholder to enable him to exercise legally and validly the relevant Conversion Rights, to hold the Conversion Shares allotted and issued upon exercise of the Conversion Rights and the Company to legally and validly allot the Conversion Shares. For the purposes of this paragraph 14, a "Restricted Holder" means a Convertible Preference Shareholder who is a resident or national of any jurisdiction other than Hong Kong under the laws and regulations of which an exercise of Conversion Rights by such Convertible Preference Shareholder or the performance by the Company of the obligations expressed to be assumed by it under these Terms or the allotment and issue and holding of the Convertible Preference Shares and/or the Conversion Shares cannot be carried out lawfully or cannot be carried out lawfully without the Company first having to take certain actions in such jurisdiction.

15. REPLACEMENT OF CERTIFICATES

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the Registrar's Office upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company may reasonably require and on payment of such fee not exceeding HK$50 as the Company may determine. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

16. NOTICES

Subject to the Statutes, except in the case of a Conversion Notice, a notice given pursuant to these provisions may be revoked with the consent in writing of the Company. Notices to Convertible Preference Shareholders shall be given in accordance with the Articles.

17. TRANSFERS AND CERTIFICATES

(A) The provisions of the Articles relating to the transfer of shares and share certificates shall apply in relation to the Convertible Preference Shares, subject to these provisions.

(B) The Company shall maintain and keep a full and complete register at such location in the Cayman Islands (but not in Hong Kong) as it shall from time to time determine of the Convertible Preference Shares and the Convertible Preference Shareholders from time to time, such register shall contain details of conversion and/or cancellation of any Convertible Preference Shares and the issue of any replacement Certificates issued in substitution for any mutilated, defaced, lost, stolen or destroyed Certificates and of sufficient identification details of all Convertible Preference Shareholders from time to time (or, to the extent reasonably requested by the principal registrar of the Company in the Cayman Islands and agreed by the Company, such lesser details and/or information in relation to the Convertible Preference Shares as maintained by the principal registrar of the Company in the Cayman Islands).

(C) Where any Convertible Preference Share is intended to be transferable to a connected person (as defined in the Listing Rules) of the Company (other than the associates (as defined in the Listing Rules) of the transferring Convertible Preference Shareholder), such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Hong Kong Stock Exchange (if any).

18. PRESCRIPTION

Any Convertible Preference Shareholder who has failed to claim distributions or other property or rights within six years of their having been made available to him will not thereafter be able to claim such distributions or other property or rights which shall be forfeited and reverted to the Company. The Company shall retain such distributions or other property or rights but shall not at any time be a trustee in respect of any such distributions or other property or rights nor accountable for any income or other benefits derived therefrom.

19. SEVERABILITY

If at any time one or more provisions hereof is or becomes invalid, illegal, unenforceable or incapable of performance in any respect under the laws of any Relevant Jurisdiction, the validity, legality, enforceability or performance in that jurisdiction of the remaining provisions hereof or the validity, legality, enforceability or performance under the laws of any other Relevant Jurisdiction of these or any other provisions hereof shall not thereby in any way be affected or impaired.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was, and immediately following completion of the Acquisition and upon issue of the Consideration Shares and the Conversion Shares upon full conversion of Convertible Preference Shares will be, as follows:

As at the Latest Practicable Date

		HK$
Authorised:		
10,000,000,000	Shares	500,000,000
Issued and fully paid or credited as fully paid:		
2,038,055,819	Shares	101,902,791

Following completion of the Acquisition and upon the Increase in Authorised Share Capital becoming effective and upon issue of the Consideration Shares and Conversion Shares upon full conversion of Convertible Preference Shares

		HK$
Authorised:		
14,000,000,000	Shares	700,000,000
2,000,000,000	Convertible Preference Shares	300,000,000
16,000,000,000		1,000,000,000
Issued and fully paid or credit as fully paid:		
2,038,055,819	Shares as at Latest Practicable Date	101,902,791
533,333,333	Consideration Share to be allotted and issued	26,666,667
1,733,333,333	Conversion Shares to be allotted and issue upon full conversion of the Convertible Preference Shares	86,666,667
4,304,722,485		215,236,125

All the issued Shares rank pari passu in all respects with each other including the rights as to voting, dividends and return of capital.

The Convertible Preference Shares rank in priority to the Shares as to return of capital and pari passu with the Shares as to dividends. Holders of the Convertible Preference Shares will not be permitted to attend or vote at meetings of the Company, unless a resolution is proposed to vary the rights of holders of the Convertible Preference Shares or a resolution is proposed for the winding up of the Company.

3. DISCLOSURE OF INTERESTS

Directors' and chief executives' interests and short positions

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares

Name of Director	Number of Shares	Capacity	Nature of interest	Approximate percentage of issued share capital *(Note 1)*
Mr. Lau Chi Yuen, Joseph ("Mr. Lau")	606,400,000 *(Note 2)*	Interest of a controlled corporation	Corporate	29.75%

Notes:

1. The percentage of issued share capital had been arrived at on the basis of a total of 2,038,055,819 Shares in issue as at the Latest Practicable Date.

2. These shares are held by JL Investments Capital Limited, which is wholly owned by Mr. Lau. Mr. Lau is therefore deemed to be interested in the shares held by JL Investments Capital Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transaction by Directors.

As at the Latest Practicable Date, none of the Directors had short positions in Shares or underlying Shares of equity derivatives of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

As at the Latest Practicable Date, none of the Directors or chief executives of the Company or their respective spouses or children under 18 years of age had any right to subscribe for the Shares or any share of its associated corporations.

Interests in Securities of Substantial Shareholders

As far as was known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in Shares

Name of Shareholders	Number of Shares	Nature of interest	Approximate percentage of issued share capital *(%)* *(Note 1)*
JL Investments Capital Limited	606,400,000 *(Note 2)*	Corporate	29.75%
Senrigan Capital Group Limited on behalf of Senrigan Master Fund	300,000,000	Corporate	14.72%

Name of Shareholders	Number of Shares	Nature of interest	Approximate percentage of issued share capital *(%)* *(Note 1)*
Joint Fortune Group Limited	189,380,000	Beneficial owner	9.29%
Info-Source International Development Limited	107,820,895 *(Note 3)*	Corporate	5.29%
Vendor	2,266,666,666 *(Note 4)*	Corporate	111.22%

Notes:

1. The percentage of issued share capital had been arrived at on the basis of a total of 2,038,055,819 Shares in issue as at the Latest Practicable Date.

2. These shares are held by JL Investments Capital Limited, which is wholly owned by Mr. Lau. Mr. Lau is therefore deemed to be interested in the shares held by JL Investments Capital Limited.

3. These shares are held by Info-Source International Development Limited, which is wholly owned by 廣東省郵政公司 (Guangdoug Postal Bureau).

4. By virtue of entering into the Sale and Purchase Agreement, the Vendor, which is wholly owned by Mr. Ma, is deemed to be interested in 2,266,666,666 Shares after issue and allotment of the Consideration Shares and the full conversion of the Convertible Preference Shares at the initial conversion price.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person who had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

4. COMPETING INTEREST

The Directors are not aware of, as at the Latest Practicable Date, any business or interest of each Director, substantial shareholder and management shareholder (as defined in the GEM Listing Rules) and their respective associates that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

5. INTERESTS IN ASSETS AND/OR CONTRACTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2009, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of or leased to any member of the Group.

As at the Latest Practicable Date save as disclosed elsewhere in this circular, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Company.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract or had an unexpired service contract with any member of the Group, which is not determinable by any member of the Group within one year without payment of compensation other than statutory compensation.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Enlarged Group within two years immediately preceding the date of this circular which are or may be material:

(a) the Sale and Purchase Agreement;

(b) the trademark license agreement dated 21 October 2010 entered into between Guangzhou Jing Pin E-Commerce Co. Ltd. as licensor and Yofiel as licensee in relation to the use of the trademark of "Angevil" for a term of 50 years for the nominal license fee of HK$1.00;

(c) the placing agreement dated 7 October 2010 entered into among the JL Investments Capital Limited (as the vendor), Senrigan Capital Group Limited (as the placee) and the Company in relation to the placing of 180,000,000 existing Shares at HK$0.20 per Share, which amounted to HK$36,000,000;

(d) the subscription agreement dated 7 October 2010 entered into between JL Investments Capital Limited (as the subscriber) and the Company (as the issuer) in relation to the subscription of 180,000,000 new Shares at HK$0.20 per Share, which amounted to HK$36,000,000;

(e) the agreement dated 25 September 2009 entered into among China Post E-Commerce Group Limited ("**CPECGL**", as the purchaser), Win Today Limited ("**Win Today**", as the vendor) and the Company in relation to the acquisition by CPECGL of the 40% equity interest in iKan TV Limited ("**iKan**") at the total consideration of HK$77,000,000 by way of the issue of 140,000,000 new Shares by the Company;

(f) the termination agreement dated 28 August 2009 entered into among CPECGL, Win Today and the Company to terminate the WT SPA (as defined as below) with immediate effect;

(g) the agreement dated 27 August 2009 entered into among CPECGL (as the purchaser), Win Today (as the vendor) and the Company (the "**WT SPA**") in relation to the acquisition by CPECGL of the 40% equity interest in iKan at the total consideration of HK$92,000,000 by way of the issue of 139,393,939 new Shares by the Company;

(h) the agreement dated 27 August 2009 entered into among CPECGL (as the purchaser), China New Media Company Limited ("**China New Media**", as the vendor) and the Company in relation to the acquisition by CPECGL of the 4% equity interest in iKan at the total consideration of HK$9,200,000 by way of setting off the loan due from China New Media to the Company under the loan agreement dated 16 February 2009 made between China New Media and the Company;

(i) the placing agreement dated 21 July 2009 entered into among the JL Investments Capital Limited (as the vendor), Oriental Patron Securities Limited (as the placee) and the Company in relation to the placing of 106,000,000 existing Shares at HK$0.38 per Share, which amounted to HK$40,280,000;

(j) the subscription agreement dated 21 July 2010 entered into between JL Investments Capital Limited (as the subscriber) and the Company (as the issuer) in relation to the subscription of 106,000,000 new Shares at HK$0.20 per Share, which amounted to HK$40,280,000;

(k) the agreement dated 6 April 2009 entered into among CPECGL (as the purchaser), Get Profit Holdings Limited (as the vendor) and the Company in relation to the acquisition by CPECGL of the 9% equity interest in iKan at the total consideration of HK$39,840,000 by way of the issue of 830,000,000 new Shares by the Company; and

(l) the agreement dated 9 January 2009 entered into among Top Creation International Investment Limited ("**Top Creation**", as the purchaser), Info-source International Development Limited ("**Info-source**", as the vendor) and the Company in relation to the acquisition by Top Creation of the 10% equity interest in Info-source Media Limited ("**ISML**") (the "**Info-source Acquisition**") at the total consideration of HK$28,800,000 by way of the issue of 360,000,000 new Shares by the Company and the granting of option by Info-source to Top Creation to purchase from Info-source, from time to time on any business day during the period of 24 months commencing from the completion date of the Info-source Acquisition, some or all of the 40% equity interest in ISML held by Info-source (subject to adjustment).

8. LITIGATION

On 19 January 2004, a winding up petition was filed against the Company by certain ex senior employees of the Group claiming for payment in the sum of HK$594,315 by the Company in respect of an award/order dated 29 October 2003 granted by the Labor Tribunal in respect of the severance and bonus disputes between the Company and the ex-senior employees. A provision was made for this amount in the Company's financial statements for the year 2005. Save for the above, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation of material importance and there was no litigation or claim of material importance known by the Directors to be pending or threatened against any member of the Enlarged Group.

9. EXPERTS AND CONSENTS

The qualifications of the experts who has given opinion in this circular is as follows:

Name	Qualification
Guangzhou Foreign Economic Law Office ("**GFE Law**")	PRC legal advisers
RSM Nelson Wheeler	Certified Public Accountants, Hong Kong

As at the Latest Practicable Date, GFE Law and RSM Nelson Wheeler:

(a) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(b) did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2009, the date to which the latest audited financial statements of the Group was made up; and

(c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears.

10. GENERAL

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The head office and principal place of business of the Company in Hong Kong is situated at Room 1203, The Chinese Bank Building, 61-65 Des Voeux Road, Central, Hong Kong.

(b) The company secretary of the Company is Ms. Wong Wai Fun, an associate member of both The Institute of Chartered Secretaries and Administrators and of the Hong Kong Institute of Certified Public Accountants.

(c) The compliance officer of the Company is Mr. Chung Man Wai. Mr. Chung is the Chief Executive Officer of the Company and holds a bachelor degree in business administration from the University of Hong Kong and a master of science degree in financial management from the University of London. Mr. Chung is also a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

(d) As at the Latest Practicable Date, the audit committee comprises three members, including Mr. Lee Chung Mong, John, Mr. Tam Wing Kin and Mr. Fung Chan Man, Alex, all are independent non-executive Directors. Mr. Tam Wing Kin has the appropriate financial and accounting experience required by the GEM Listing Rules. The primary duties of the Audit Committee is to communicate with the management of the Company from time to time, including but not limited to review the accounting principles and practices adopted by the Company, the effectiveness of its internal control systems, the interim and annual results of the Company.

(e) The registered address of the auditor, RSM Nelson Wheeler is 29th Floor, Caroline Centre, Lee Gardens Two, 28 Yun Ping Road, Hong Kong.

(f) The share registrar of the Company is Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(g) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 1203, The Chinese Bank Building, 61-65 Des Voeux Road, Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the letter from the Board, the text of which is set out this circular;

(c) the annual reports of the Company for each of the two financial years ended 31 December 2009;

(d) the accountants' report prepared by RSM Nelson Wheeler on the Ratio Knitting Group, the text of which is set out in Appendix II to this circular;

(e) the accountants' report prepared by RSM Nelson Wheeler in relation to the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(f) the written consents from GFE Law and RSM Nelson Wheeler referred to in the paragraph headed "Expert and Consent" in this Appendix;

(g) each of the material contracts entered into by the Enlarged Group as referred to in the paragraph headed "Material Contracts" in this Appendix; and

(h) a copy of each circular issued pursuant to the requirements set out in Chapter 19 and/or 20 of the GEM Listing Rules which has been issued since 31 December 2009, being the date to which the latest published audited consolidated financial statements of the Company were made up.

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8041)

Website: http://www.cpech.com

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**Meeting**") of China Post E-Commerce (Holdings) Limited (the "**Company**") will be held at Room 1103, 11/F. The ICBC Tower, 3 Garden Road, Central, Hong Kong on 28 March 2011 at 10:00 a.m. to consider and, if thought fit, to pass with or without amendments, the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the sale and purchase agreement (the "**Sale and Purchase Agreement**") dated 6 January 2011 and entered into among the Company, as purchaser, Big Good Management Limited (the "**Vendor**"), as vendor, and Mr. Ma Hoi Cheuk, as guarantor, in relation to the sale and purchase of one share of US$1.00 in the share capital of Easy Time Trading Limited (the "**Target**"), representing its entire issued share capital, for a consideration of HK$390,000,000 (subject to adjustment) (a copy of the Sale and Purchase Agreement is marked "**A**" and produced to the Meeting and initialed by the chairman of the Meeting for identification purpose) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved;

(b) subject to the ordinary resolutions no. 2 and no. 3 below being duly passed, the creation, allotment and issue of 1,733,333,333 Convertible Preference Shares (as defined in ordinary resolution no. 2 below) be and is hereby approved;

(c) the allotment and issue of ordinary shares (the "**Conversion Shares**") of HK$0.05 each in share capital of the Company which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Preference Shares be and is hereby approved;

* *For identification purpose only*

(d) the allotment and issue of up to 533,333,333 ordinary shares (the "**Consideration Shares**") of HK$0.05 each in share capital of the Company (subject to adjustment) be and is hereby approved;

(e) the issue of the promissory note(s) (the "**Promissory Note(s)**") in the initial principal amount of HK$50,000,000 (subject to adjustment) be and is hereby approved; and

(f) any one or more of the directors (the "**Directors**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of Convertible Preference Shares, the Conversion Shares and the Consideration Shares and the issue of the Promissory Note(s)."

2. "**THAT**

(a) the authorised share capital of the Company be and is hereby increased from HK$500,000,000 divided into 10,000,000,000 shares (the "**Shares**") of HK$0.05 each to HK$1,000,000,000 divided into 14,000,000,000 Shares and 2,000,000,000 non-voting convertible preference shares (the "**Convertible Preference Shares**") of HK$0.15 each in the share capital of the Company with the rights and restrictions of the Convertible Preference Shares as set out in the terms of the Convertible Preference Shares as referred to in the ordinary resolution no. 3 below by the creation of an additional 4,000,000,000 Shares and 2,000,000,000 Convertible Preference Shares (the "**Proposed Increase in Authorised Share Capital**"); and

(b) any one or more of the Directors be and is/are hereby authorised do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Proposed Increase in Authorised Share Capital."

3. “**THAT**

(a) the terms of the Convertible Preference Shares as set out in appendix IV to the circular of the Company dated 11 March 2011 (a copy of the terms of the Convertible Preference Shares is marked “B” and produced to the Meeting and initialed by the chairman of the Meeting for identification purpose only) be and is hereby approved, and shall, subject to the articles of association of the Company, constitute the entire terms of the Convertible Preference Shares; and

(b) any one or more of the Directors be and is/are hereby authorised do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the terms of the Convertible Preference Shares.”

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

Hong Kong, 11 March 2011

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong:
Room 1203
The Chinese Bank Building
61-65 Des Voeux Road Central
Hong Kong

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a person or if he is the holder of two or more shares, more than one person as his proxy or proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney or authority, must be deposited at the Company's share registrar, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting, and in default thereof the form of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiry of 12 months from the date of its execution.

3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting, and in such event the instrument appointing a proxy shall be deemed to be revoked.